JEFFERSON COUNTY COMMISSION

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2008

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WARREN, AVERETT, KIMBROUGH & MARINO, LLC

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS & FINANCIAL CONSULTANTS

INDEPENDENT AUDITORS' REPORT

January 31, 2011

To the Commissioners
Jefferson County Commission
Birmingham, Alabama

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 (the Commission) as of and for the year ended September 30, 2008, which collectively comprise the Commission's basic financial statements as listed in the contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jefferson County Economic and Industrial Development Authority (the Development Authority), a blended component unit, which represent less than one percent of the assets, net assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Development Authority, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. 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 and the report of the other auditors provide a reasonable basis for our opinions.

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To the Commissioners
Jefferson County Commission
January 31, 2011

We were unable to obtain a valuation of certain capital assets donated to the Commission related to sewer infrastructure of new subdivisions, and we were unable to satisfy ourselves about the values of such donated assets through alternative procedures. Management has not recorded an estimated liability for other postemployment benefits (OPEB) or included the related current disclosures due to unavailability of information. Generally accepted accounting principles require recognition of a liability for the estimated present value of future OPEB costs and disclosures related to such benefits.

In our opinion, based on our audit and the report of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the valuation of certain donated capital assets and other postemployment benefits, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph 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 of the Jefferson County Commission as of September 30, 2008, and the respective changes in financial position and cash flows, where applicable, as of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Commission will continue as a going concern. As discussed in Notes J, K and V to the financial statements, during the year ended September 30, 2008, and subsequent to September 30, 2008, the Commission has received Notices of Default from the Trustee for certain debt obligations and may be unable to meet its debt service obligations as they become due. These conditions raise substantial doubt about the Commission's ability to continue as a going concern without the restructuring of debt or other significant reorganization activities. Management's plans regarding those matters are described in Note X. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note S, subsequent to September 30, 2008, court rulings in 2009 and 2010 resulted in the effective repeal of certain occupational taxes and business license fees, which have historically comprised significant revenues to the Commission. The Commission is currently appealing the court rulings. It is not possible, at this time, to predict the ultimate outcome upon appeal.

The Commission has not presented management's discussion and analysis that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

To the Commissioners
Jefferson County Commission
January 31, 2011

The budgetary comparison information on pages 150 through 152 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining and individual nonmajor fund financial statements, included in the supplementary information section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Warren, Averett, Kimbrough + Marino, LLC

Birmingham, Alabama

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and investments	$ 43,397	$ 16,135	$ 59,532
Patient accounts receivable, net	-	5,836	5,836
Estimated third-party payor settlements	-	463	463
Accounts receivable, net	9,077	21,553	30,630
Loans receivable, net	1,219	-	1,219
Taxes receivable, net	155,781	5,505	161,286
Other receivables	-	795	795
Due from (to) other governments	7,005	(333)	6,672
Inventories	4,742	1,818	6,560
Prepaid expenses	190	56	246
Deferred charges - issuance costs	946	1,892	2,838
Total Current Assets	222,357	53,720	276,077
Noncurrent Assets			
Deferred charges - issuance costs	13,747	52,849	66,596
Advances due from (to) other funds	20,969	(20,969)	-
Loans receivable, net	24,779	-	24,779
Restricted assets	206,733	200,384	407,117
Assets internally designated for capital improvements or redemption of warrants	-	58,353	58,353
Assets held for sale	-	166	166
Capital assets:			
Depreciable assets, net	268,924	3,180,351	3,449,275
Nondepreciable assets	89,450	126,287	215,737
	624,602	3,597,421	4,222,023
	$ 846,959	$ 3,651,141	$ 4,498,100

See notes to financial statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Accounts payable	$ 28,166	$ 11,221	$ 39,387
Deposits payable	1,568	-	1,568
Deferred/unearned revenue	122,488	5,763	128,251
Accrued wages and benefits	7,316	2,670	9,986
Accrued interest	15,220	30,196	45,416
Swap termination liability	7,894	31,189	39,083
Retainage payable	2,232	2,206	4,438
Estimated claims liability	6,824	3,159	9,983
Noncurrent liabilities - portion due or payable within one year:			
Capital lease obligations	2,095	449	2,544
Estimated liability for compensated absences	8,272	3,028	11,300
Warrants payable	64,685	373,938	438,623
Add: Unamortized premiums	2,601	192	2,793
Less: Deferred loss on refunding	(256)	(10,778)	(11,034)
	67,030	363,352	430,382
Total Current Liabilities	269,105	453,233	722,338
Noncurrent Liabilities			
Accrued arbitrage rebates	39,723	63	39,786
Capital lease obligations	4,539	545	5,084
Estimated liability for landfill closure and postclosure care costs	-	7,182	7,182
Estimated liability for compensated absences	9,527	3,550	13,077
Warrants payable	1,202,200	2,825,160	4,027,360
Add: Unamortized premiums	37,371	5,833	43,204
Less: Deferred loss on refunding	(128)	(290,703)	(290,831)
	1,239,443	2,540,290	3,779,733
Total Liabilities	1,562,337	3,004,863	4,567,200
Net Assets			
Investment in capital assets, net of related debt	310,927	612,573	923,500
Restricted for:			
Debt service or capital improvements	-	11,247	11,247
Debt service	150,602	8,228	158,830
Closure and postclosure care	-	713	713
Other purposes	2,834	1,599	4,433
Unrestricted	(1,179,741)	11,918	(1,167,823)
	$ (715,378)	$ 646,278	$ (69,100)

JEFFERSON COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

		Program Revenues		Net (Expenses) Revenues and Changes in Net Assets Primary Government		
	Expenses	Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	Total
Primary Government						
Governmental Activities:						
General government	$ 174,221	$ 25,436	$ 14,992	$ (133,793)	$ -	$ (133,793)
Public safety	80,677	2,851	4,576	(73,250)	-	(73,250)
Highways and roads	35,238	3,643	-	(31,595)	-	(31,595)
Health and welfare	77	-	1,496	1,419	-	1,419
Environmental services	131	-	-	(131)	-	(131)
Culture and recreation	10,286	-	-	(10,286)	-	(10,286)
Grants to school boards - proceeds from limited obligation school warrants	26,159	-	-	(26,159)	-	(26,159)
Education - other	167	-	-	(167)	-	(167)
Interest and fiscal charges	74,508	-	-	(74,508)	-	(74,508)
Total Governmental Activities	401,464	31,930	21,064	(348,470)	-	(348,470)
Business-Type Activities:						
Cooper Green Hospital	85,060	24,571	-	-	(60,489)	(60,489)
Economic and Industrial Development Authority	1,229	-	-	-	(1,229)	(1,229)
Nursing Home operations	14,233	9,781	-	-	(4,452)	(4,452)
Landfill operations	3,654	-	-	-	(3,654)	(3,654)
Sanitary operations	426,761	158,691	-	-	(268,070)	(268,070)
Total Business-Type Activities	530,937	193,043	-	-	(337,894)	(337,894)
Total Primary Government	$ 932,401	$ 224,973	$ 21,064	(348,470)	(337,894)	(686,364)
General Revenues						
Taxes:						
Property taxes				103,152	5,758	108,910
Sales tax				172,191	-	172,191
Other taxes				35,545	-	35,545
Licenses and permits				76,832	-	76,832
Unrestricted investment earnings				15,000	14,086	29,086
Miscellaneous				7,977	12,824	20,801
Transfers				(52,133)	52,133	-
Total General Revenues and Transfers				358,564	84,801	443,365
Change in Net Assets				10,094	(253,093)	(242,999)
Net Assets - beginning of year, as previously reported				(692,011)	894,641	202,630
Prior Period Adjustments				(33,461)	4,730	(28,731)
Net Assets - beginning of year, as restated				(725,472)	899,371	173,899
Net Assets - end of year				$ (715,378)	$ 646,278	$ (69,100)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
BALANCE SHEET -
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	General Fund	Limited Obligation School Fund	Indigent Care Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	$ 30,342	$ -	$ -	$ 13,055	$ 43,397
Accounts receivable, net	8,847	-	-	230	9,077
Taxes receivable, net	97,507	14,646	3,285	40,343	155,781
Due from (to) other governments	2,277	-	3,873	855	7,005
Inventories	4,742	-	-	-	4,742
Prepaid expenses	139	-	-	51	190
Loans receivable, net	206	-	-	1,013	1,219
Restricted assets	2,334	150,388	1,904	51,607	206,733
Advances due from (to) other funds	22,586	(1,617)	-	-	20,969
	$ 169,480	$ 163,417	$ 9,062	$ 107,154	$ 449,113
LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	$ 24,428	$ -	$ -	$ 3,738	$ 28,166
Deposits payable	1,568	-	-	-	1,568
Deferred/unearned revenue	78,778	-	-	43,710	122,488
Accrued wages and benefits	7,243	-	-	73	7,316
Accrued interest	-	1,182	-	6,022	7,204
Swap termination liability	-	-	-	7,894	7,894
Retainage payable	281	-	-	1,951	2,232
Estimated liability for compensated absences	8,272	-	-	-	8,272
Estimated claims liability	6,824	-	-	-	6,824
Total Liabilities	127,394	1,182	-	63,388	191,964
Fund Balances					
Reserved for:					
Inventories	4,742	-	-	-	4,742
Advances due from other funds	-	-	-	-	-
Petty cash	100	-	-	1,006	1,106
Mapping and reappraisal	1,631	-	-	-	1,631
E911	1,305	-	-	-	1,305
Cooper Green Hospital Foundation	-	-	1,904	-	1,904
Debt service	-	150,388	-	214	150,602
Encumbrances	12,800	7	-	23,603	36,410
Loans receivable	206	-	-	1,013	1,219
Capital projects	-	-	-	49,451	49,451
Other purposes	2,973	-	-	-	2,973
Unreserved reported in:					
General Fund	18,329	-	-	-	18,329
Special Revenue Funds	-	11,840	7,158	(4,831)	14,167
Capital Projects Fund	-	-	-	(26,690)	(26,690)
	42,086	162,235	9,062	43,766	257,149
	$ 169,480	$ 163,417	$ 9,062	$ 107,154	$ 449,113

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2008
(IN THOUSANDS)

Total Fund Balances - Governmental Funds		$ 257,149
Amounts reported for governmental activities in the statement of net assets are different due to the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets were added as net capital assets.		358,374
Other noncurrent assets are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		24,779
Deferred loss on early retirement of debt is not reported in the funds.		384
Deferred amounts related to premiums on long-term liabilities are not reported in the funds.		(39,972)
Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds.		14,693
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Those liabilities consist of:		
Warrants payable	(1,266,885)	
Capital lease obligations	(6,634)	
Accrued arbitrage rebates	(39,723)	
Accrued interest	(8,016)	
Estimated liability for compensated absences	(9,527)	
Total Long-Term Liabilities		(1,330,785)
Total Net Assets - Governmental Activities		$ (715,378)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

	General Fund	Limited Obligation School Fund	Indigent Care Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	$ 102,574	$ 92,608	$ 45,485	$ 42,068	$ 282,735
Licenses and permits	76,832	-	-	-	76,832
Intergovernmental	38,378	-	-	10,839	49,217
Charges for services, net	28,279	-	-	3,651	31,930
Miscellaneous	5,762	-	131	1,958	7,851
Interest and investment	4,408	4,761	19	5,812	15,000
	256,233	97,369	45,635	64,328	463,565
Expenditures					
Current:					
General government	151,366	-	-	9,924	161,290
Public safety	72,904	-	-	3,562	76,466
Highway and roads	28,361	-	-	877	29,238
Health and welfare	39	-	-	38	77
Environmental services	108	-	-	-	108
Culture and recreation	10,286	-	-	-	10,286
Grants to school boards - proceeds from limited obligation school warrants	-	26,159	-	-	26,159
Education - other	167	-	-	-	167
Capital outlay	(1,409)	-	-	44,809	43,400
Debt service:					
Principal retirement	-	46,565	-	17,392	63,957
Interest and fiscal charges	185	48,655	-	27,167	76,007
	262,007	121,379	-	103,769	487,155
Excess (Deficiency) of Revenues over Expenditures	(5,774)	(24,010)	45,635	(39,441)	(23,590)
Other Financing Sources (Uses)					
Sale of capital assets	117	-	-	-	117
Transfers in	22,703	-	249	41,397	64,349
Transfers out	(7,797)	-	(44,776)	(63,909)	(116,482)
	15,023	-	(44,527)	(22,512)	(52,016)
Net Changes in Fund Balances	9,249	(24,010)	1,108	(61,953)	(75,606)
Fund Balance - beginning of year, as previously reported	40,056	177,789	7,954	145,678	371,477
Prior Period Adjustments	(7,219)	8,456	-	(39,959)	(38,722)
Fund Balance - beginning of year, as restated	32,837	186,245	7,954	105,719	332,755
Fund Balance - end of year	$ 42,086	$ 162,235	$ 9,062	$ 43,766	$ 257,149

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

Net Changes in Fund Balances - Governmental Funds		$	(75,606)
Amounts reported for governmental activities in the statement of activities are different due to the following:			
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 ($43,400,000) exceeded depreciation ($23,233,000) in the current period.			20,167
Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds:			
Change in noncurrent portion of loans receivable			117
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 of principal exceeded amortization of debt-related items:			
Amortization of bond premiums	2,535		
Amortization of bond issuance costs	(1,220)		
Amortization of deferred loss on refunding	(256)		
Repayments of principal - capital lease obligations	1,972		
Repayments of principal - warrants payable	61,985		65,016
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:			
Decrease in accrued interest	440		
Decrease in long-term portion of compensated absences	68		508
Governmental funds report proceeds from the sale of fixed assets as other financial sources. However, the statement of activities reports a gain or loss on the sale of capital assets.			(108)
Change in Net Assets - Governmental Activities		$	10,094

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Current Assets				
Cash and investments	$ 170	$ 13,305	$ 2,660	$ 16,135
Patient accounts receivable, net	4,323	-	1,513	5,836
Accounts receivable, net	-	21.179	374	21,553
Other receivables	492	-	303	795
Estimated third-party payor settlements	463	-	-	463
Taxes receivable, net	-	5,505	-	5,505
Due from (to) other governments	(248)	1,215	(1,300)	(333)
Inventories	1,282	458	78	1,818
Prepaid expenses	52	4	-	56
Deferred charges - issuance costs	-	1,892	-	1,892
Total Current Assets	6,534	43,558	3,628	53,720
Noncurrent Assets				
Restricted assets	1,599	189,844	8,941	200,384
Assets internally designated for capital improvements or redemption of warrants	-	58,353	-	58,353
Assets held for sale	-	166	-	166
Advances due from (to) other funds	(1,726)	-	(19,243)	(20,969)
Deferred charges - issuance costs	-	52,684	165	52,849
Capital assets:				
Depreciable assets, net	42,248	3,094,299	43,804	3,180,351
Nondepreciable assets	1,078	102,536	22,673	126,287
	43,199	3,497,882	56,340	3,597,421
	$ 49,733	$ 3,541,440	$ 59,968	$ 3,651,141

See notes to financial statements.

LIABILITIES AND NET ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Current Liabilities				
Accounts payable	$ 3,658	$ 6,935	$ 628	$ 11,221
Accrued wages and benefits	1,406	968	296	2,670
Accrued interest	-	30,179	17	30,196
Swap termination liability	-	31,189	-	31,189
Retainage payable	-	2,206	-	2,206
Deferred/unearned revenue	-	5,763	-	5,763
Estimated claims liability	1,552	1,233	374	3,159
Estimated liability for compensated absences	1,283	1,468	277	3,028
Current portion of capital lease obligations	449	-	-	449
Warrants payable	-	372,653	1,285	373,938
Add: Unamortized premiums (discounts)	-	196	(4)	192
Less: Deferred loss on refunding	-	(10,748)	(30)	(10,778)
	-	362,101	1,251	363,352
Total Current Liabilities	8,348	442,042	2,843	453,233
Noncurrent Liabilities				
Warrants payable	-	2,820,590	4,570	2,825,160
Add: Unamortized premiums (discounts)	-	5,851	(18)	5,833
Less: Deferred loss on refunding	-	(290,567)	(136)	(290,703)
	-	2,535,874	4,416	2,540,290
Capital lease obligations	545	-	-	545
Accrued arbitrage rebates	-	63	-	63
Estimated liability for landfill closure and postclosure care costs	-	-	7,182	7,182
Estimated liability for compensated absences	1,349	2,000	201	3,550
Total Liabilities	10,242	2,979,979	14,642	3,004,863
Net Assets				
Invested in capital assets, net of related debt	42,332	529,826	40,415	612,573
Restricted for:				
Debt service or capital improvements	-	11,247	-	11,247
Debt service	-	-	8,228	8,228
Closure and postclosure care	-	-	713	713
Other purposes	1,599	-	-	1,599
Unrestricted	(4,440)	20,388	(4,030)	11,918
	$ 39,491	$ 561,461	$ 45,326	$ 646,278

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Operating Revenues				
Taxes	$ -	$ 5,758	$ -	$ 5,758
Intergovernmental	-	101	-	101
Charges for services, net	24,571	158,590	9,781	192,942
Other operating revenue	7,353	861	1,602	9,816
	31,924	165,310	11,383	208,617
Operating Expenses				
Salaries	33,029	21,434	6,291	60,754
Employee benefits and payroll taxes	8,452	8,102	2,019	18,573
Materials and supplies	12,709	1,466	1,481	15,656
Utilities	1,665	8,273	1,007	10,945
Outside services	9,206	13,335	3,041	25,582
Services from other hospitals	5,292	-	-	5,292
Jefferson Clinic	11,296	-	-	11,296
Office expenses	575	1,498	235	2,308
Depreciation	2,521	128,844	2,422	133,787
Closure and postclosure care	-	-	1,000	1,000
Miscellaneous	250	296	533	1,079
	84,995	183,248	18,029	286,272
Operating Loss	(53,071)	(17,938)	(6,646)	(77,655)
Nonoperating Revenues (Expenses)				
Interest expense, net	(65)	(224,765)	(979)	(225,809)
Interest revenue	227	13,549	310	14,086
Grant income	1,599	-	-	1,599
Amortization of warrant related costs	-	(18,748)	(108)	(18,856)
(Loss) gain on sale or retirement of capital assets	(1)	(600)	2,010	1,409
	1,760	(230,564)	1,233	(227,571)
Operating Transfers				
Transfers in	49,325	-	4,980	54,305
Transfers out	(329)	-	(1,843)	(2,172)
	48,996	-	3,137	52,133
Change in Net Assets	(2,315)	(248,502)	(2,276)	(253,093)
Net Assets - beginning of year, as previously reported	41,483	825,313	27,845	894,641
Prior Period Adjustments	323	(15,350)	19,757	4,730
Net Assets - beginning of year, as restated	41,806	809,963	47,602	899,371
Net Assets - end of year	$ 39,491	$ 561,461	$ 45,326	$ 646,278

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Cash Flows from Operating Activities				
Cash received from services	$ 25,140	$ 155,090	$ 9,895	$ 190,125
Cash payments to employees	(41,337)	(29,372)	(8,310)	(79,019)
Cash payments for goods and services	(43,328)	(27,702)	(5,628)	(76,658)
Other receipts and payments, net	16,120	8,289	684	25,093
Net Cash Provided (Used) by Operating Activities	(43,405)	106,305	(3,359)	59,541
Cash Flows from Noncapital Financing Activities				
Grant income	1,599	-	-	1,599
Operating transfers out	(329)	-	(1,843)	(2,172)
Operating transfers in	49,325	-	4,980	54,305
Net Cash Provided by Noncapital Financing Activities	50,595	-	3,137	53,732
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(6,919)	(26,678)	(862)	(34,459)
Repayment of capital lease obligations	(426)	-	-	(426)
Sale of capital assets	-	-	4,506	4,506
Interest paid	(65)	(177,214)	(982)	(178,261)
Principal payments on warrants	-	(61,222)	(1,245)	(62,467)
Retainage paid	-	(432)	-	(432)
Net Cash Provided (Used) by Capital and Related Financing Activities	(7,410)	(265,546)	1,417	(271,539)
Cash Flows from Investing Activities				
Interest received	227	13,549	310	14,086
Change in investments held under self-insurance trust agreement	(111)	-	-	(111)
Arbitrage rebate payments	-	-	-	-
Miscellaneous	(11)	(185)	(939)	(1,135)
Net Cash Provided (Used) by Investing Activities	105	13,364	(629)	12,840
Change in Cash and Investments	(115)	(145,877)	566	(145,426)
Cash and Investments - beginning of year	285	407,379	2,807	410,471
Cash and Investments - end of year	$ 170	$ 261,502	$ 3,373	$ 265,045
Displayed As				
Cash and investments	$ 170	$ 13,305	$ 2,660	$ 16,135
Restricted assets - noncurrent cash and investments	-	189,844	713	190,557
Assets internally designated for capital improvements or redemption of warrants - noncurrent cash	-	58,353	-	58,353
	$ 170	$ 261,502	$ 3,373	$ 265,045

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)
(Continued)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (53,071)	$ (17,938)	$ (6,646)	$ (77,655)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	2,521	128,844	2,422	133,787
Provision for bad debts	3,906	-	663	4,569
Change in patient accounts receivable	(2,951)	-	(679)	(3,630)
Change in accounts receivable	-	(3,446)	(282)	(3,728)
Change in other receivables	(316)	-	(276)	(592)
Change in estimated third-party payor settlements	(386)	-	-	(386)
Change in due from other governments	-	(54)	-	(54)
Change in advances due (to) from other funds	9,083	1,554	(93)	10,544
Change in taxes receivable, net	-	(146)	-	(146)
Change in inventories	(368)	(21)	13	(376)
Change in prepaid expenses	337	-	-	337
Change in assets held for sale	-	359	-	359
Change in accounts payable	(2,544)	(3,172)	123	(5,593)
Change in deferred/unearned revenue	-	161	-	161
Change in accrued wages and benefits	149	88	27	264
Change in estimated liability for compensated absences	(5)	(169)	(26)	(200)
Change in estimated claims liability	240	245	52	537
Change in estimated liability for landfill closure and postclosure care costs	-	-	1,343	1,343
	9,666	124,243	3,287	137,196
Net Cash Provided (Used) by Operating Activities	$ (43,405)	$ 106,305	$ (3,359)	$ 59,541
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
(Loss) gain on sale or retirement of capital assets	$ (1)	$ (600)	$ 2,010	$ 1,409

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS - AGENCY FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	Agency Funds
Current Assets	
Cash and investments	$ 2,606
Loans receivable, net	306
Prepaid expenses	2
Total Current Assets	2,914
Depreciable assets, net	125
	$ 3,039
LIABILITIES	
Accounts payable and accrued expenses	$ 361
Due to external organizations	1,745
Due to other governments	933
	$ 3,039

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Jefferson County Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, except that management has not recognized a liability for the estimated present value of costs or included current disclosures for the other postemployment benefits plan due to unavailability of information. 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.

Reporting Entity

The Commission is a general purpose local government governed by five separately elected commissioners. The accompanying financial statements present the activities of the Jefferson County Commission (the primary government) and its component units, as required by GAAP. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability is generally defined as the appointment of a voting majority of the component unit's governing body and either (a) the Commission's ability to impose its will on the component unit's governing body or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Commission.

Based on the application of the above criteria, the financial position and results of operations for the Jefferson County Public Building Authority (the Building Authority) and the Jefferson County Economic and Industrial Development Authority (the Development Authority) have been included in the accompanying financial statements as blended component units, which are defined as legally separate entities that exist solely to provide services exclusively to the Commission. Complete financial information of the Building Authority and the Development Authority may be reviewed at the Jefferson County Courthouse. Finance Department, Room 810, Birmingham, Alabama.

Government-Wide and Fund Financial Statements

The basic financial statements include both the government-wide (based on the Commission as a whole) and fund financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide Financial Statements

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

The statement of activities presents a comparison between program revenues and direct expenses for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. No indirect expenses were allocated to the various functions during 2008.

Fund Financial Statements

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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. As a general rule, revenues are recorded when earned, and expenses are recorded when 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 both due and collectible and available to fund operations.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to the general rule are charges between the government's enterprise functions 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.

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.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized when they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon thereafter to pay liabilities of the current period. For this purpose, the Commission considers revenues to be available if they are collected within 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 and compensated absences, which are recognized as expenditures to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. General long-term debt issued and acquisitions under capital leases are reported as other financing sources.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The following major governmental funds are included in the Commission's financial statements:

- *General Fund* - This fund is the primary operating fund of the Commission. It is used to account for financial resources except those required to be accounted for in another fund. The Commission primarily receives revenues from collections of property taxes, occupational taxes, county sales taxes and revenues collected by the State of Alabama and shared with the Commission.
- *Limited Obligation School Fund* - This fund is used to account for the sales tax collected for the payment of principal and interest on the Limited Obligation School Warrants.
- *Indigent Care Fund* - This fund is used to account for the expenditure of beverage and sales taxes designated for indigent residents of Jefferson County (the County).

Other nonmajor governmental funds are as follows:

- *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.
- *Capital Improvements Fund* - This fund is used to account for the financial resources used in the improvement of major capital facilities.
- *Public Building Authority* - This fund is used to account for the operations of the Jefferson County Public Building Authority. This authority was incorporated in 1998 for the general purpose of providing public facilities for the use of the Commission and its agencies.
- *Road Construction Fund* - This fund is used to account for the financial resources expended in the construction of roads.
- *Home Grant Fund* - This fund is used to account for the expenditure of funds received to create affordable housing for low income housing.
- *Emergency Management Fund* - This fund is used to account for the expenditure of funds received for disaster assistance programs.
- *Debt Service Fund* - This fund is used to account for the accumulation of resources for and the payment of the Commission's principal and interest on governmental bonds.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission currently reports enterprise funds as its only type of proprietary fund. Enterprise 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. Proprietary funds distinguish operating revenues and expenses from nonoperating items in their statement of revenues, expenses and changes in fund net assets. 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 the purchase or use of the proprietary fund's principal product or service. Operating expenses for the Commission's enterprise funds include the cost of providing those products or services, administrative expenses, depreciation on capital assets and closure and postclosure care costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The following major enterprise funds are included in the Commission's financial statements:

- *Cooper Green Hospital Fund* - This fund is used to account for the operations of Cooper Green Mercy Hospital. Net revenues are derived from 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 Commission's sanitary sewer systems. Revenues are generated primarily through user charges, impact fees and designated property and ad valorem taxes.

Other nonmajor enterprise funds are as follows:

- *Landfill Operations Fund* - This fund is used to account for the operations of the Commission's landfill systems. Revenues are generated primarily through user charges and lease payments from a third-party lessee.
- *Jefferson Rehabilitation and Health Center 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *Jefferson County Economic and Industrial Development Authority* - This fund is used to account for the operations of the Jefferson County Economic and Industrial Development Authority. This authority was incorporated in 1995 to engage in the solicitation and promotion of industry and industrial development and to induce industrial and commercial enterprises to locate, expand or improve their operations or remain in Jefferson County.

The Commission currently reports fiduciary funds as its only type of agency fund. Fiduciary 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.

The following fiduciary funds are presented with the Commission's financial statements:

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

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

The preparation of financial statements in accordance with United States 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.

As a governmental unit, the Commission is exempt from federal and state income taxes.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Net Assets/Fund Balances

Deposits and Investments
Cash includes 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 Commission to invest in obligations of the U.S. Treasury and securities of federal agencies and certificates of deposit.

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

Receivables
All trade, property tax, loans and patient receivables are shown net of an allowance for uncollectible amounts. Allowances for doubtful accounts are estimated based on historical write-off percentages. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and recorded as recoveries of bad debts if subsequently collected.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 determinations 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.

	Enterprise Funds
Patient receivables	$ 25,566,000
Allowance accounts	19,730,000
Net patient receivables	$ 5,836,000

Allowances for uncollectible accounts on accounts receivable totaled $11,218,000 at September 30, 2008.

In previous fiscal years, the Commission issued long-term loans of $16,929,000 to the City of Fultondale (maturity on April 1, 2016, with three-percent interest rate, payable annually), $5,440,000 to local companies as part of its economic stimulus program (maturities ranging from October 2007 to November 2008 with interest rates ranging from zero to 3.65 percent, payable monthly) and $5,972,000 to local contractors for special needs housing developments within the County (maturities ranging from September 2017 to November 2039 with interest rates ranging from zero to two percent, payable at maturity). These loans totaled $23,790,000 (net of an allowance of $1,088,000) at September 30, 2008.

The Commission 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 totaled $1,664,000 at September 30, 2008.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission, 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, 2008, the balance of these loans receivable (net of an allowance of $135,000) for the City of Birmingham totaled $306,000, which is presented in the statement of fiduciary net assets.

Other miscellaneous loans were issued by the Commission with varying maturities and interest rates. These loans totaled $544,000 (net of an allowance of $153,000) at September 30, 2008.

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

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

Inventories
Inventories are valued at cost, which approximates realizable value, using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets
Certain resources set aside for the repayment of certain general obligation and sewer revenue warrants are classified as restricted assets on the statement of net assets because they are maintained in separate bank accounts, and their use is limited by applicable bond agreements. Also, various amounts are classified as restricted because they are limited by warrant documents for the construction on various ongoing projects or improvements.

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

Depreciation on all assets is provided on the straight-line basis over the asset's 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:

Item	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
Collection sewer system assets	250,000	25-40 years
Treatment plant sewer system assets	250,000	40 years
Landfills and improvements	100,000	25 years

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission capitalizes interest cost incurred on funds used to construct property, equipment and infrastructure assets. Interest capitalization ceases when the construction project is substantially complete. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In accordance with authoritative accounting guidance, interest is not capitalized for construction projects of governmental funds. Net interest capitalized during fiscal year 2008 amounted to $9,871,000.

Capital assets are reviewed for impairment in accordance with the methodology prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries.* Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The Commission determined that no decline in service utility for its capital assets has occurred and, accordingly, no impairment of its capital assets exists at September 30, 2008.

Transactions between Funds

During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. These receivables and payables are classified as "due from other funds" or "due to other funds" on the fund level balance sheet.

Transactions between funds, which would have been treated as revenues, expenditures or expenses if they involved organizations external to the governmental unit, are accounted for as revenues, expenditures or expenses in the funds involved. Transactions which constitute reimbursements of a fund for expenditures or expenses initially made from that fund which are properly applicable to another fund are recorded as expenditures or expenses in the reimbursing fund and as reductions of the expenditure or expenses in the fund reimbursed. All other nonreciprocal transactions between funds which are not reimbursements and where the funds do not receive equivalent goods or services for the transactions are classified as transfers.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimated Claims Liabilities

The Commission establishes claims liabilities for health insurance, general, auto and workers' compensation self-insured activities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claim frequency and other economic and social factors. A provision for inflation in the calculation of estimated future claims costs is implicit in the calculation because reliance is placed both on actual historical data that reflect past inflation and on other factors that are considered to be appropriate modifiers of past experience. Adjustments to claims liabilities are charged or credited to expense in the periods in which they are made.

Long-Term Obligations

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net assets. Warrant premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the warrants.

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

Pursuant to its agreement with the Liquidity Provider, the Commission must redeem certain series warrants on an accelerated schedule. See Note J with regards to specific series warrants where the payments have been accelerated. See Note V for a detailed discussion of subsequent events.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Derivative Instruments/Interest Rate Swap Agreements

The Commission has entered into several interest rate swap agreements in relation to the warrant agreements in an effort to change the effective interest rate to a lower rate. The fair value of derivative instruments is not currently required to be recorded by GASB standards. As the Commission has elected not to follow private-sector standards of accounting issued after December 1, 1989, the fair value of the derivative instruments is not recorded in the accompanying statement of net assets or balance sheet for governmental funds. See Note K for a discussion of the interest rate swap agreements and the related fair values at the balance sheet date. See Note W for a significant new accounting pronouncement that will require the fair value of such agreements to be recorded on the statement of net assets and balance sheet for future periods beginning after June 15, 2009, or in fiscal 2010 for the Commission.

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 ½ days
Over 25 years	2 days

Vacation earned but not used during the calendar year may be accumulated up to a maximum of 40 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 Commission 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 Commission in good standing after five years of service may, subject to the approval of the appointing authority, receive pay for 50 percent of the accumulated sick leave not to exceed 30 days.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Maximum limitations of accumulated compensatory time are as follows:

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

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

The Commission uses the vesting method to accrue its sick leave liability. Under this method, an accrual for earned sick leave is based on the sick leave accumulated at September 30 each year by those employees who currently are eligible to receive termination payments as well as other employees who are expected to become eligible in the future to receive such payments, reduced to the maximum amount allowed as a termination payment.

As of September 30, 2008, the liability for accrued vacation and compensatory leave included in the government-wide statement of net assets is approximately $15,311,000, of which $11,220,000 is reported in the government activities, and $4,091,000 is reported in the business-type activities. Of this amount, an estimated $10,812,000 is payable within a year.

As of September 30, 2008, the liability for accrued sick leave included in the government-wide statement of net assets is approximately $9,066,000. Of this amount, $6,579,000 is reported in the government activities, and $2,487,000 is reported in the business-type activities. Due and payable within one year of September 30, 2008, is approximately $488,000.

Legal Fees
Legal fees for the Commission are expensed as incurred and are included in operating expenses in the accompanying financial statements. No estimate is made for legal fees that may be incurred related to potential loss contingencies.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Net Assets/Fund Equity

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

- *Invested in Capital Assets, Net of Related Debt* - Capital assets, net of accumulated depreciation and outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets. Any significant unspent related debt proceeds at year end related to capital assets are included in this calculation.
- *Restricted* - Constraints are 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.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through January 31, 2011, the date the financial statements were available to be issued.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for all governmental funds except the capital projects funds, which adopt project-length budgets. All annual appropriations lapse at fiscal year end.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

The State Legislature enacted the County Financial Control Act of 1935, which is the present statutory basis for Commission budgeting operations. Under the terms of the County Financial Control Act, each county commission, at a 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 budgets must be approved by the Commissioners. 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 Commission. Any changes must be within the revenues and reserves estimated to be available.

The General Fund and Indigent Care Fund's budget and actual comparisons are presented in the required supplementary information section.

Deficit Fund Balances/Net Assets of Individual Funds
At September 30, 2008, the following funds had a deficit fund balance:

	(In Thousands) Deficit
Bridge and Public Building Fund	$ 1,282
Capital Improvements Fund	4,950
Road Construction Fund	1,317

NOTE C - RESTATEMENTS

The beginning net assets reported on the government-wide financial statements have been restated to correct various prior year errors as listed in the table below:

	(In Thousands) Governmental Activities	Business-Type Activities	Total
Net assets, September 30, 2007, as previously reported	$ (692,011)	$ 894,641	$ 202,630
Unrecorded expenses	(3,402)	-	(3,402)
Record loans receivable not previously recorded	670	-	670
Improperly expensed capital assets	126	323	449
Record completed projects	(1,167)	(870)	(2,037)
Assets improperly capitalized	(10,909)	(14,480)	(25,389)
Assets improperly depreciated	978	-	978
Correct interfund receivables and payables	(19,757)	19,757	-
Net assets, September 30, 2007, as restated	$ (725,472)	$ 899,371	$ 173,899

The beginning fund balance of the governmental funds reported on the fund financial statements have been restated to correct various prior year errors as listed in the table below:

	In Thousands General Fund	Limited Obligation School Fund	Indigent Care Fund	Other Governmental Funds	Total Governmental Funds
Fund balance, September 30, 2007, as previously reported	$ 40,056	$ 177,789	$ 7,954	$ 145,678	$ 371,477
Record loans receivable not previously recorded	-	-	-	670	670
Remove noncurrent portion of loans receivable, net	(17,542)	-	-	(7,147)	(24,689)
Correct accrued interest	-	8,456	-	-	8,456
Unrecorded expenses	(3,402)	-	-	-	(3,402)
Correct interfund receivables and payables	13,725	-	-	(33,482)	(19,757)
Fund balance, September 30, 2007, as restated	$ 32,837	$ 186,245	$ 7,954	$ 105,719	$ 332,755

Loans receivable contain a noncurrent portion which does not provide for current financial resources and, therefore, should not be reported in the funds. The above restatement removes the noncurrent portion from the funds.

NOTE C - RESTATEMENTS - Continued

The beginning net assets of the proprietary funds reported on the fund financial statements have been restated to correct various prior year errors as listed in the table below:

	(In Thousands)			
	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Proprietary Funds	Total Proprietary Funds
Net assets, September 30, 2007, as previously reported	$ 41,483	$ 825,313	$ 27,845	$ 894,641
Improperly expensed capital assets	323	-	-	323
Assets improperly capitalized	-	(14,480)	-	(14,480)
Record completed projects	-	(870)	-	(870)
Correct interfund receivables and payables	-	-	19,757	19,757
Net assets, September 30, 2007, as restated	$ 41,806	$ 809,963	$ 47,602	$ 899,371

NOTE D - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

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

NOTE D - DEPOSITS AND INVESTMENTS - Continued

Investments

As of September 30, 2008, the components of cash and investments and restricted assets are:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Petty cash	$ 93	$ 1	$ 94
Equity in pooled investments	41,872	614	42,486
Cash and investments	1,432	15,520	16,952
Assets internally designated for capital improvements or redemption of warrants	-	58,353	58,353
Restricted assets held for:			
Closure and postclosure care	-	713	713
Retainage	281	2,206	2,487
Debt service	111,492	1,025	112,517
Capital improvements	90,502	157,085	247,587
Debt service or capital improvements	-	29,529	29,529
Other purposes	4,458	9,826	14,284
Total restricted assets	206,733	200,384	407,117
Total cash and investments	$ 250,130	$ 274,872	$ 525,002

As of September 30, 2008, the Commission had the following deposits and investments:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	$ 6,534	$ 5,762	$ 12,296
Investments:			
U.S. Government obligations	113,636	85,012	198,648
Repurchase agreements	-	46,908	46,908
Collateralized mortgage obligations	-	2,556	2,556
Mortgage-backed securities	-	4,243	4,243
Fixed income money market mutual funds	129,679	128,185	257,864
Total investments	243,315	266,904	510,219
Restricted assets held for retainage	281	2,206	2,487
	$ 250,130	$ 274,872	$ 525,002

NOTE D - DEPOSITS AND INVESTMENTS - Continued

The Commission has entered into contracts for construction of various facilities within Jefferson County. Cash deposits were provided by some contractors that were used to purchase certificates of deposits and U.S. Government securities to be held by designated financial institutions in the name of the contractors and the Commission in lieu of retainage. These securities. totaling $2,487,000, are included as part of restricted assets on the accompanying statement of net assets and are not included in investments discussed below. They are not covered by collateral agreements between financial institutions and the 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.

As of September 30, 2008, the Commission's investments had the following maturities (in thousands):

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1-5	6-10	Thereafter
U.S. Government obligations	$ 198,648	$ 185,035	$ 4,556	$ 9,057	$ -
Repurchase agreements	46,908	46,908	-	-	-
Collateralized mortgage obligations	2,556	-	-	1,116	1,440
Mortgage-backed securities	4,243	-	-	1,169	3,074
Fixed income money market mutual funds	257,864	257,864	-	-	-
	$ 510,219	$ 489,807	$ 4,556	$ 11,342	$ 4,514

Interest Rate Risk

In accordance with its investment policy, the Commission manages its exposure to declines in fair values by limiting the weighted average maturity of its investment portfolio to less than 10 months.

Investment Risk

Investment securities are exposed to market risks. Due to the level of risk associated with certain investment securities, it is at least reasonably possible that changes in the values of investment securities will occur in the near term and that such changes could materially affect the amounts reported in the statement of net assets.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

Subsequent to year end, the financial markets have experienced significant levels of volatility that may cause a decline in the value of investments held at September 30, 2008. While such declines may be temporary, the investment values are subject to market fluctuations, and the timing of any such recovery is unknown at the present time.

Concentration of Credit Risk

The Commission's investment policy generally does not allow for an investment in any one issuer that is in excess of five percent of the total investments. However, the Commission held one repurchase agreement totaling $46,908,000 at September 30, 2008, with an investment balance greater than five percent of total investments.

On October 16, 2008, the repurchase agreement with an initial contract amount of $54,095,000 was terminated. See Note V for discussion of the Notice of Issuer Event of Default on Repurchase Agreement.

Custodial Credit Risk

Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Statutes authorize the Commission to invest in obligations of the U.S. Treasury and federal agency securities, along with certain prerefunded public obligations, such as bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state. State law requires that prerefunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state in which the Commission invests, be rated in the highest rating category of Standard & Poor's and Moody's Investors Service, Inc. As of September 30, 2008, the Commission's investments in U.S. Government obligations were rated 'Aaa' by Standard & Poor's. No ratings were available on the other investments.

Of the Commission's $510,219,000 in investments at September 30, 2008, $76,498,000 of the underlying securities are held by the investment's counterparty, not in the name of the Commission.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

For collateralized mortgage obligations, actual maturities may differ from contractual maturities because some borrowers have the right to call or prepay obligations with or without call or prepayment penalties. Embedded prepayment options cause these investments to be highly sensitive to changes in interest rates. Prepayments of underlying assets reduce the total interest payments to be received. Generally, when interest rates fall, obligees tend to prepay the mortgages, thus eliminating the stream of interest payments that would have been received under the original amortization schedule. The resulting reduction in cash flow diminishes the fair value of the obligation.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2008, was as follows:

	(In Thousands)				
Governmental Activities	Balance at October 1, 2007 Restated	Additions	Disposals	Transfers/ Reclassifications	Balance at September 30, 2008
Nondepreciable capital assets:					
Land	$ 18,447	$ 969	$ -	$ 534	$ 19,950
Construction in progress (CIP)	39,754	39,257	-	(9,511)	69,500
	58,201	40,226	-	(8,977)	89,450
Depreciable capital assets:					
Buildings	335,798	-	(3)	-	335,795
Improvements other than land/buildings	138,928	-	-	8,977	147,905
Maintenance equipment	12,427	40	(5)	-	12,462
Motor vehicle (nonfleet)	16,047	267	(355)	-	15,959
Motor vehicle (fleet)	39,061	1,710	(1,758)	-	39,013
Equipment under capital lease	13,847	250	-	-	14,097
Miscellaneous equipment	54,945	721	(325)	-	55,341
Office furniture and fixtures	4,472	186	(1)	-	4,657
	615,525	3,174	(2,447)	8,977	625,229
Less accumulated depreciation for:					
Buildings	(175,579)	(4,699)	-	-	(180,278)
Improvements other than land/buildings	(58,172)	(5,720)	-	-	(63,892)
Maintenance equipment	(11,194)	(577)	15	-	(11,756)
Motor vehicle (nonfleet)	(13,254)	(840)	285	-	(13,809)
Motor vehicle (fleet)	(30,029)	(2,901)	1,760	-	(31,170)
Equipment under capital lease	(6,429)	(1,986)	-	-	(8,415)
Miscellaneous equipment	(37,280)	(6,236)	162	-	(43,354)
Office furniture and fixtures	(3,357)	(274)	-	-	(3,631)
	(335,294)	(23,233)	2,222	-	(356,305)
Total depreciable capital assets, net	280,231	(20,059)	(225)	8,977	268,924
Total capital assets, net	$ 338,432	$ 20,167	$ (225)	$ -	$ 358,374

NOTE E - CAPITAL ASSETS - Continued

Business-Type Activities	Balance at October 1, 2007 Restated (In Thousands)	Additions	Disposals	Transfers/ Reclassifications	Balance at September 30, 2008
Nondepreciable capital assets:					
Land	$ 50,984	$ -	$ (2,235)	$ -	$ 48,749
Construction in progress	198,568	20,080	-	(141,110)	77,538
	249,552	20,080	(2,235)	(141,110)	126,287
Depreciable capital assets:					
Buildings	1,086,059	2,030	-	3,477	1,091,566
Improvements other than land/buildings	3,157,074	9,645	(657)	137,633	3,303,695
Maintenance equipment	7,543	88	(84)	-	7,547
Motor vehicle (nonfleet)	5,032	-	(320)	-	4,712
Motor vehicle (fleet)	11,465	11	(321)	-	11,155
Equipment under capital lease	2,155	-	-	-	2,155
Miscellaneous equipment	17,033	2,530	-	-	19,563
Office furniture and fixtures	10,033	75	-	-	10,108
	4,296,394	14,379	(1,382)	141,110	4,450,501
Less accumulated depreciation for:					
Buildings	(211,806)	(26,862)	-	-	(238,668)
Improvements other than land/buildings	(880,390)	(104,012)	-	-	(984,402)
Maintenance equipment	(7,009)	(211)	84	-	(7,136)
Motor vehicle (nonfleet)	(4,047)	(258)	115	-	(4,190)
Motor vehicle (fleet)	(9,486)	(589)	321	-	(9,754)
Equipment under capital lease	(575)	(238)	-	-	(813)
Miscellaneous equipment	(13,764)	(1,522)	-	-	(15,286)
Office furniture and fixtures	(9,806)	(95)	-	-	(9,901)
	(1,136,883)	(133,787)	520	-	(1,270,150)
Total depreciable capital assets, net	3,159,511	(119,408)	(862)	141,110	3,180,351
Total capital assets, net	$ 3,409,063	$ (99,328)	$ (3,097)	$ -	$ 3,306,638

The construction and rehabilitation of several treatment plants and sewer system infrastructure was completed during the year. The net book value of landfill operations capital assets leased to a third-party at September 30, 2008, is $38,853,000. See Note H for discussion of operating lease.

NOTE E - CAPITAL ASSETS - Continued

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

		(In Thousands)
Governmental activities:		
General government	$	12,998
Public safety		4,211
Highways and roads		6,000
Health and welfare		24
Total depreciation expense - governmental activities	$	23,233
Business-type activities:		
Cooper Green Hospital	$	2,521
Nursing Home		293
Landfill operations		1,890
Sanitary operations		128,844
Development Authority		239
Total depreciation expense - business-type activities	$	133,787

NOTE F - 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, 2008, the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

	(In Thousands)		
	Unavailable	Unearned	Total
Ad valorem taxes - property	$ 119,796	$ -	$ 119,796
Ad valorem taxes - other	-	4,660	4,660
Business privilege tax	2,180	-	2,180
Contractual obligation	-	1,615	1,615
Total deferred/unearned revenue	$ 121,976	$ 6,275	$ 128,251

NOTE G - 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, 2008, amounts paid by the Commission totaled $1,501,000 for governmental activities and $292,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2008, are as follows:

	(In Thousands)		
Year Ending September 30,	Facilities	Equipment	Total
2009	$ 936	$ 452	$ 1,388
2010	956	-	956
2011	921	-	921
2012	698	-	698
2013	679	-	679
2014-2018	2,669	-	2,669
2019-2023	1,739	-	1,739
2024-2028	1,075	-	1,075
	$ 9,673	$ 452	$ 10,125

Capital Lease Obligations

On July 1, 2004, the Commission entered into a lease agreement to acquire communications equipment and systems at a cost of $13,847,000. On July 21, 2008, the Commission entered into a lease agreement to acquire office equipment at a cost of $250,000. The lease agreements qualify as capital leases for accounting purposes and have been recorded in the Capital Improvements Fund at the present value of the minimum lease payments as of the inception date of the leases. Under the terms of the communication equipment lease, the Commission is required to make seven equal annual payments of $2,298,458. Under the terms of the office equipment lease, the Commission is required to make monthly payments of $4,727. Amortization of the capital leases is included in depreciation expense for governmental activities.

NOTE G - LEASE OBLIGATIONS - Continued

The Commission also entered into seven lease agreements at various dates to acquire major medical equipment at a cost of $2,155,000. These lease agreements qualify as capital leases for accounting purposes and have been recorded in the Cooper Green Hospital Fund at the present value of the minimum lease payments as of the inception date of the leases. Under the terms of the leases, the Commission is required to make monthly payments totaling $40,883. Amortization of the capital leases is included in depreciation expense for the fund.

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2008, are as follows:

	(In Thousands)	
Year Ending September 30,	Governmental Activities	Business-Type Activities
2009	$ 2,355	$ 491
2010	2,355	403
2011	2,355	117
2012	57	47
2013	47	-
Total minimum lease payments	7,169	1,058
Less amount representing interest	535	64
Present value of minimum lease payments	$ 6,634	$ 994

NOTE H - LANDFILL LEASE

On January 1, 2006, the Commission, as lessor, entered into an agreement with Santek Environmental of Alabama, LLC (Santek) to lease its two landfills, one transfer station and one convenience center until the completion of the operational life of the landfills. The Commission retains its rights to sell methane gas produced naturally at the landfills. Future minimum rental payments to be received are contractually due as follows as of September 30, 2008:

2009	$ 918.000
2010	918,000
2011	918,000
2012	918,000
2013	918,000
Thereafter	47,965,500
	$ 52,555,500

Future minimum rental payments to be received do not include contingent rentals that may be received under the lease because of use in excess of specified amounts. Total rental income during 2008 of $1,144,000 is presented as other operating revenue in the statement of revenues, expenses and changes in fund net assets.

NOTE I - 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 30 years after closure. In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills' capacity used during the year.

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS - Continued

The recorded liability for landfill closure and postclosure care costs is $7,182,000 as of September 30, 2008. This estimate was based on 65-percent usage (filled) of the Jefferson County Landfill Number 1, 33-percent usage (filled) of the Jefferson County Landfill Number 1 Inert Cell, 58-percent usage (filled) of the Jefferson County Landfill Number 2 and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills, which were both closed October 1997. The total estimated current cost of closure and postclosure care remaining to be recognized and the estimated remaining useful life of the landfill at September 30, 2008, are $12,318,000 and six years, respectively.

Santek has agreed to fund $1.28 per ton into a restricted account to fund closure and postclosure care costs of the landfills. To the extent that the funds in the restricted account are not adequate and Santek is unable to fund the closure and postclosure care obligation, the ultimate liability falls back to the Commission. Funds in the account total $713,000 as of September 30, 2008, and are presented as noncurrent restricted assets on the accompanying statement of net assets under business-type activities.

The 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, 2008. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

NOTE J - WARRANTS PAYABLE

Warrants payable include obligations for warrants issued in the name of the Jefferson County Commission for the primary purpose of sewer capital projects and related improvements (Business-Type Activities - Sewer Revenue Warrants), for the primary purpose of general capital projects and related improvements (Governmental Activities - General Obligation Warrants), for the primary purpose of school capital projects and related improvements (Governmental Activities - Limited Obligation School Warrants) and for the primary purpose of the Public Building Authority related capital projects and related improvements (Governmental Activities - Lease Revenue Warrants).

NOTE J - WARRANTS PAYABLE - Continued

Warrants payable also include related amounts of premiums and discounts on the warrants and any losses on advance refunding of warrants, which are deferred and amortized over the life of the warrants.

BUSINESS-TYPE ACTIVITIES

Beginning prior to 1992, the Commission issued various warrants for sewer related capital projects and improvements. The Commission entered into a Trust Indenture (the Indenture) (as supplemented and amended) dated February 1, 1997, between Jefferson County, Alabama and AmSouth Bank of Alabama (AmSouth Bank), as Trustee, for the general purpose of refunding warrants outstanding or obtaining additional funds for capital sewer projects and improvements. The Indenture provides for the issuance of additional securities secured on a parity of lien with the original issues of warrants. The Bank of New York Mellon, as successor to AmSouth Bank, currently serves as Trustee under the Indenture. The Commission also entered into Standby Warrant Purchase Agreements related to the variable rate warrant offerings, as discussed further below.

The warrants issued under the Indenture are not general obligations of the Commission, but represent limited obligations of the Commission, payable solely out of and secured by a pledge and assignment of the revenues (other than tax revenues) from the Commission's sanitary sewer system remaining after payment of operating expenses.

Payment of the principal of and interest on the warrants when due is insured by municipal warrant insurance policies issued by Financial Guaranty Insurance Company (FGIC), Syncora Guarantee Inc. (Syncora), formerly known as XL Capital Assurance, Inc., or Assured Guaranty Municipal Corp. (AGM) (formally known as Financial Security Assurance, Inc.), simultaneously with the delivery of each series of warrants discussed below, except the Series 2003-A warrants which were issued to an affiliate of the State of Alabama (see discussion below).

The Indenture includes certain covenants and requires the Commission to comply with certain continuing disclosure requirements pursuant to Rule 15c2-12 of the Securities and Exchange Commission, as discussed further below.

NOTE J - WARRANTS PAYABLE - Continued

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants

Beginning in 1984, the Commission issued various warrants for capital projects and improvements, including construction of a new jail facility located in Bessemer (Jefferson County), purchase of 200 school buses for the Jefferson County Board of Education, acquisition of land and landfills for the disposal of waste, additions and improvements to the sanitary sewer system, improving and building certain roads, waste transfer system and various other capital equipment, buildings and facilities for use by the County. The General Obligation Warrants are general obligations of the Commission and are payable out of the general fund from the Commission. Repayment of the outstanding general obligation warrants is secured by the full faith and credit of Jefferson County.

Payment of the principal and interest on the warrants when due is insured by a municipal warrant insurance policy issued by Ambac Assurance Corp. (Ambac) or National Public Finance Guarantee Corp. (National) formerly known as MBIA Corporation, Inc. (MBIA). Ambac filed Chapter 11 bankruptcy in November 2010 as discussed further in Note V.

Limited Obligation School Warrants

Beginning in 2004, the Commission issued various warrants for school capital projects and improvements. The Commission entered into a Trust Indenture dated December 1, 2004, between Jefferson County, Alabama and SouthTrust Bank (on November 1, 2004, SouthTrust Corporation was acquired by Wachovia Corporation, and on December 31, 2008, Wachovia Corporation was acquired by Wells Fargo & Company), as Trustee, for the general purpose of obtaining funds for school capital projects and improvements. The Trust Indenture provides for the issuance of additional securities secured on a parity of lien with the original warrant issues. U.S. Bank National Association (U.S. Bank), as successor to SouthTrust Bank, currently serves as Trustee under the Trust Indenture.

The Limited Obligation School Warrants were subject to extraordinary mandatory redemption under the Trust Indenture, which required the Commission to make certain certifications regarding the warrants on or before October 20, 2006. No grants were made to any school board until the warrants were no longer subject to extraordinary mandatory redemption, which occurred during fiscal 2007. Grants in the amount of $26,158 were expended in 2008 to the school boards and recorded as expenditures in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds.

NOTE J - WARRANTS PAYABLE - Continued

The warrants issued under the Trust Indenture are not general obligations of the Commission, but represent limited obligations of the Commission, payable solely out of and secured by a pledge of the gross proceeds of the Education Tax as adopted on December 16, 2004, through Ordinance No. 1769.

Lease Revenue Warrants
In 2006, the Jefferson County Public Building Authority (the Building Authority) issued warrants under the August 1, 2006, Trust Indenture for related capital projects and improvements. The warrants are special, limited obligations of the Authority, payable solely from and secured by a pledge of the revenues and receipts delivered by the Authority from the leasing to Jefferson County of the warrant-financed facilities.

Warrants payable consist of the following at September 30, 2008 (in thousands):

Business-Type Activities:	
Sewer Revenue Refunding Warrants, Series 1997-A, with interest paid semiannually at fixed rates ranging from 5.375% to 5.650% (5.375% at September 30, 2008) and annual principal payments from year 2017 to 2027	$ 57,030
Sewer Revenue Capital Improvement Warrants, Series 2001-A, with interest paid semiannually at fixed rates ranging from 4.50% to 5.00% (4.50% at September 30, 2008) and annual principal payments through 2020	13,740
Sewer Revenue Capital Improvement Warrants, Series 2002-A, with interest paid monthly at variable interest rates (6.08% at September 30, 2008) and accelerated principal payments in four equal quarterly payments beginning April 2008	101,465

NOTE J - WARRANTS PAYABLE - Continued

Sewer Revenue Refunding Warrants, Series 2002-C, with interest paid monthly at variable interest rates or 35-day auction rates (average rate of 7.59% at September 30, 2008) and accelerated principal payments of $436,900 over 16 equal quarterly payments and annual principal payments through year 2040 for the balance	806,738
Sewer Revenue Refunding Warrant, Series 2003-A, with interest paid semiannually at a fixed rate of 3.10% and annual principal payments through year 2015	25,220
Sewer Revenue Refunding Warrants, Series 2003-B, with interest paid monthly at a fixed rate of 5.25%, a variable interest rate or 35-day auction rates (average rate of 7.79% at September 30, 2008) on $1,137,025 with accelerated principal payments of $300,000 over 16 equal quarterly payments and annual principal payments from year 2009 through year 2042 for the balance	1,137,025
Sewer Revenue Refunding Warrants, Series 2003-C, with interest paid monthly at 35-day auction rates (average of 6.62% at September 30, 2008) and annual principal payments from year 2009 through year 2042	1,052,025
	3,193,243
Governmental Activities:	
General Obligation Warrants, Series 2001-A, with interest paid semiannually at fixed rates ranging from 4.50% to 5.00% (5.00% at September 30, 2008) and annual principal payments through year 2011	28,185

NOTE J - WARRANTS PAYABLE - Continued

General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates, computed using the Weekly Rate Mode (10.0% at September 30, 2008) and accelerated principal payments due in six equal installments beginning September 2008	120,000
General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, with interest paid semiannually at fixed rates ranging from 2.50% to 5.25% and annual principal payments through year 2023	56,310
General Obligation Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 3.4% to 5.0% and annual principal payments from years 2011 to 2024	51,020
Limited Obligation School Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 4.75% to 5.50% and annual principal payments from years 2008 to 2025	607,115
Limited Obligation School Warrants, Series 2005-A and 2005-B, with interest paid monthly at a variable rate (Series 2005-A) or auction rate (Series 2005-B) (average of 5.69% at September 30, 2008) and annual principal payments from years 2007 to 2027	318,500

NOTE J - WARRANTS PAYABLE - Continued

Lease Revenue Warrants, Series 2006, with interest paid semiannually at fixed rates ranging from 4.25% to 5.125% and annual principal payments through year 2026	85,755
	1,266,885
	4,460,128
Add unamortized net premiums (discounts) (net of current portion of $2,797)	43,222
Less deferred loss from early extinguishment (net of current portion of $11,004)	290,695
Less amounts due within one year	437.338
Warrants payable - noncurrent, net	$ 3,775,317

Also, see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Sewer Capital Improvement and Refunding Warrants
The following is a summary of the warrants issued under the Indenture, including those outstanding as of September 30, 2008.

Series 1997-A Warrants
The Commission issued $211.040 of tax-exempt Sewer Revenue Refunding Warrants, Series 1997-A under the Indenture, dated February 1, 1997. These warrants were issued to refund a portion of the Commission's outstanding sewer revenue indebtedness, other than the Sewer Revenue Warrant (SRF Warrant) referred to below.

Following the issuance of the Series 1997 Warrants, the Commission had no outstanding sewer revenue indebtedness other than the Series 1997-A and 1997-C Warrants (see below) and Series 1997-B Warrants that have been retired. Funds were deposited to escrow for the ultimate repayment of the Series 1992 and 1993 Warrants. The Series 1995-A Warrants were purchased and retired with this issue. The Series 1997-A Warrants have an outstanding balance of $57,030 at September 30, 2008.

NOTE J - WARRANTS PAYABLE - Continued

The Series 1997-A Warrants are subject to redemption at the option of the Commission and mature or are subject to mandatory redemption in years 2017 through 2027. The Series 1997-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

Simultaneous with the above issue, the Commission issued the Taxable Sewer Revenue Refunding Warrants, Series 1997-C for $52,880. The Series 1997-C Warrants were not issued to the public but were sold to the Alabama Water Pollution Control Authority in exchange for an outstanding SRF Warrant of the same principal amount. The Series 1997-C Warrants were subsequently refunded by the Series 2003-A issue described below.

Series 1997-D and Series 1999-A Warrants
Under the First Supplemental Indenture dated March 1, 1997, between Jefferson County and AmSouth Bank and the Second Supplemental Indenture dated March 1, 1999, between Jefferson County and The Bank of New York Mellon, as successor to AmSouth Bank, the Commission issued the tax-exempt Sewer Revenue Warrants and Sewer Revenue Capital Improvement Warrants, Series 1997-D and Series 1999-A in principal amounts of $296,395 and $952,695, respectively. The purpose of the issues was for sewer system capital improvements. Both issues were subsequently refunded by Series 2002-C Warrants, Series 2003-B Warrants and Series 2003-C Warrants as described below.

Series 2001-A Warrants
Under the Third Supplemental Indenture dated March 1, 2001, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $275,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2001-A. These warrants were issued for the purpose of funding various sewer system capital improvements.

The warrants were partially refunded by the Series 2002-C Warrants, Series 2003-B Warrants and Series 2003-C Warrants as described below. The Series 2001-A Warrants have an outstanding balance of $13,740 at September 30, 2008. The Series 2001-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

NOTE J - WARRANTS PAYABLE - Continued

Series 2002-A Warrants
Under the Fourth Supplemental Indenture dated as of February 1, 2002, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $110,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2002-A. These warrants were issued for the purpose of funding various sewer capital improvements. The Series 2002-A Warrants have an outstanding balance of $101,465 at September 30, 2008. The Series 2002-C Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

A Standby Warrant Purchase Agreement with JPMorgan Chase Bank (Liquidity Provider), as discussed further below, provides for the purchase of Series 2002-A Warrants tendered for purchase in accordance with the terms of the agreement. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Provider repurchased the Series 2002-A Warrants during March 2008.

Pursuant to its agreement with the Liquidity Provider, the Commission must redeem the Series 2002-A Warrants on an accelerated schedule of four equal quarterly payments beginning on the first day of the month after the month of purchase, or April 1, 2008. Subsequent to year end, FGIC repaid the Liquidity Provider on behalf of the Commission and acquired all rights of redemption under the original warrant indenture and the Standby Warrant Purchase Agreement. See Note V for a detailed discussion.

Series 2002-B Warrants
Under the Fifth Supplemental Indenture dated as of September 1, 2002, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $540,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2002-B. These warrants were issued for the purpose of funding various sewer capital improvements. The warrants were fully refunded by the Series 2003-B Warrants and Series 2003-C Warrants as described below.

Series 2002-C Warrants
The Commission issued $839,500 of tax-exempt Sewer Revenue Refunding Warrants, Series 2002-C as evidenced by the Sixth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon, dated as of October 1, 2002. These warrants were issued for the purpose of refunding $724,600 of outstanding warrants ($180,655 of the Series 1997-D Warrants, $445,785 of the Series 1999-A Warrants and $98,160 of the Series 2001-A Warrants).

NOTE J - WARRANTS PAYABLE - Continued

Of the proceeds, $825,919 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $112,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2002-C Warrants have an outstanding balance of $806,738 at September 30, 2008.

The Series 2002-C Warrants include $442,400 of variable rate demand warrants and $364,338 of auction rate warrants. The warrants are insured by Syncora pursuant to a bond insurance policy issued simultaneously with the warrants.

Standby Warrant Purchase Agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2002-C Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreement. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers repurchased $436,900 of the Series 2002-C Variable Rate Demand Warrants in March 2008.

Pursuant to its agreement with the Liquidity Providers, the Commission must redeem the Series 2002-C Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first day of the month after the month of purchase, or April 1, 2008. Subsequent to year end, Syncora repaid the Liquidity Provider $81,934 of the outstanding warrants on behalf of the Commission acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. See Note V for a detailed discussion of subsequent events.

Series 2002-D Warrants
The Commission issued $475,000 of Sewer Revenue Capital Improvement Warrants, Series 2002-D dated as of November 1, 2002, for the purpose of funding various sewer improvements as evidenced by the Seventh Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon. This issue was refunded with $27,780 from the Series 2003-B Warrants and $447,220 from the Series 2003-C Warrants within the same fiscal year, and there was no gain or loss recorded on the refunding.

NOTE J - WARRANTS PAYABLE - Continued

Series 2003-A Warrants

The Commission issued a $41,820 taxable Sewer Revenue Refunding Warrant, Series 2003-A as evidenced by the Eighth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of January 1, 2003. This warrant was issued for the purpose of refunding $41,820 (remaining balance) of the Series 1997-C Warrants. The Series 1997-C Warrants were canceled and, due to the warrants being issued to the State of Alabama (Alabama Water Pollution Control Authority) with no issuance costs involved, there was no loss on early retirement recorded. The Series 2003-A Warrant has an outstanding balance of $25,220 at September 30, 2008.

Series 2003-B Warrants

The Commission issued $1,155,765 of tax-exempt Sewer Revenue Refunding Warrants, Series 2003-B as evidenced by the Ninth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of April 1, 2003. These warrants were issued for the purpose of refunding $922,635 of outstanding warrants ($128,770 of the 1997-A Warrants, $71,980 of the Series 1997-D Warrants, $373,320 of the Series 1999-A Warrants, $113,865 of the Series 2001-A Warrants, $206,920 of the Series 2002-B Warrants and $27,780 of the Series 2002-D Warrants).

Of the proceeds, $1,144,919 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $122,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2003-B Warrants include $119,965 of fixed rate warrants, $300,000 of variable rate demand warrants and $735,800 of auction rate warrants. The warrants are insured by AGM, Syncora and FGIC pursuant to bond insurance policies issued simultaneously with the warrants.

Standby Warrant Purchase Agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2003-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreements. The Series 2003-B Warrants have an outstanding balance of $1,137,025 at September 30, 2008.

Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers repurchased $300,000 of the Series 2003-B Variable Rate Demand Warrants in March 2008.

NOTE J - WARRANTS PAYABLE - Continued

Pursuant to its agreement with the Liquidity Providers, the Commission must redeem the Series 2003-B Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first day of the month after the month of purchase, or April 2008. Subsequent to year end, Syncora repaid the Liquidity Provider $56,255 of the outstanding warrants on behalf of the Commission, thus acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. See Note V for a detailed discussion of subsequent events.

The Commission experienced failed auctions on February 14, 2008, and the interest rate was adjusted per the Indenture.

Series 2003-C Warrants

The Commission issued $1,052,025 of tax-exempt Sewer Revenue Refunding Warrants, Series 2003-C as evidenced by the Tenth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated August 1, 2003. These warrants were issued for the purpose of refunding $1,027,800 of outstanding warrants ($22,540 of the Series 1997-A Warrants, $43,760 of the Series 1997-D Warrants, $133,590 of the Series 1999-A Warrants, $47,610 of the Series 2001-A Warrants, $333,080 of the Series 2002-B Warrants and $447,220 of the Series 2002-D Warrants). The Series 2003-C Warrants are auction rate warrants and are insured by AGM and FGIC under bond insurance policies issued simultaneously with the warrants.

Of the proceeds, $71,304 was placed in escrow for future debt service requirements, and $956,534 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $124,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2003-C Warrants have an outstanding balance of $1,052,025 at September 30, 2008.

The County experienced failed auctions on February 13, 2008, and the interest rate was adjusted per the Indenture.

NOTE J - WARRANTS PAYABLE - Continued

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants
The following is a summary of the warrants issued, including those outstanding as of September 30, 2008.

General Obligation Warrants, Series 2001-A
The Commission issued $82,000 of tax-exempt General Obligation Warrants, Series 2001-A (GO Series 2001-A Warrants) dated April 1, 2001. These warrants were issued for the purpose of current refunding of the Commission's General Obligation Warrants, Series 2000, for the purpose of acquiring, constructing and equipping various capital improvements to Jefferson County's facilities and for the related warrant issuance costs. The warrants are insured by a bond insurance policy issued by Ambac. The GO Series 2001-A Warrants have an outstanding balance of $28,185 at September 30, 2008.

General Obligation Warrants, Series 2001-B
On July 19, 2001, the Commission issued $120,000 of tax-exempt General Obligation Warrants, Series 2001-B (GO Series 2001-B Warrants). These warrants were issued for the purpose of refunding the County's General Obligation Warrants, Series 1996 and Series 1999 and related issuance costs. The GO Series 2001-B Warrants have an outstanding balance of $120,000 at September 30, 2008.

Standby Warrant Purchase Agreements with Morgan Guaranty Trust Company of New York (a wholly-owned subsidiary of JPMorgan Chase & Co.) and Bayerische Landesbank Gironzentrale (GO Liquidity Providers), as discussed further below, provide for the purchase of Series 2001-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreement.

Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the GO Liquidity Providers repurchased the GO Series 2001-B Warrants during March 2008.

Pursuant to its agreements with the GO Liquidity Providers, the Commission must redeem the GO Series 2001-B Warrants on an accelerated schedule of six equal semiannual payments beginning six months from the date of purchase. Subsequent to year end, the Commission paid a total of $15,000 of the outstanding obligations to the GO Liquidity Providers. See Note V for a detailed discussion of subsequent events.

NOTE J - WARRANTS PAYABLE - Continued

General Obligation Capital Improvement and Refunding Warrants, Series 2003-A
On March 1, 2003, the Commission issued $94,000 of tax-exempt General Obligation Capital Improvement and Refunding Warrants, Series 2003-A (GO Series 2003-A Warrants). These warrants were issued for the purpose of the current refunding of the Commission's outstanding General Obligation Warrants, Series 1993, for capital expenditures and payment of related issuance costs. The GO Series 2003-A Warrants are insured by a bond insurance policy issued by National (formerly known as MBIA). The GO Series 2003-A Warrants have an outstanding balance of $56,310 at September 30, 2008.

General Obligation Warrants, Series 2004-A
On August 1, 2004, the Commission issued $51,020 of tax-exempt General Obligation Warrants, Series 2004-A (GO Series 2004-A Warrants). These warrants were issued for the purpose of various capital improvements for the County and payment of the related issuance costs. The GO Series 2004-A Warrants are insured by a bond insurance policy issued by National (formerly known as MBIA). The GO Series 2004-A Warrants have an outstanding balance of $51,020 at September 30, 2008.

Limited Obligation School Warrants

Limited Obligation School Warrants, Series 2004-A
The Commission issued $650,000 of tax-exempt Limited Obligation School Warrants, Series 2004-A (LO Series 2004-A Warrants) under the Trust Indenture dated December 1, 2004 (Trust Indenture). These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and for retirement of certain debt at the school boards. The repayment obligations related to the LO Series 2004-A Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds). The LO Series 2004-A Warrants have an outstanding balance of $607,115 at September 30, 2008.

A Notice of Default was issued by U.S. Bank dated December 28, 2009, as discussed further in Notes J and V.

NOTE J - WARRANTS PAYABLE - Continued

Limited Obligation School Warrants, Series 2005-A and 2005-B
The Commission issued $400,000 ($200,000 for each of the Series 2005-A and Series 2005-B) of tax-exempt Limited Obligation School Warrants, Series 2005-A and 2005-B (LO Series 2005-A and 2005-B Warrants) under the First Supplemental Indenture between Jefferson County and Wachovia Bank, N.A., dated January 1, 2005. These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and school board debt retirement. The repayment obligations related to the LO Series 2005-A and 2005-B Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds).

A Standby Warrant Purchase Agreement with DEPFA BANK plc. (LO Liquidity Provider), as discussed further below, provides for the purchase of Series 2005-B Warrants tendered for purchase in accordance with the terms of the agreement.

The LO Series 2005-A and 2005-B Warrants are insured by a bond insurance policy issued by Ambac. The LO Series 2005-A and 2005-B Warrants have an outstanding balance of $318,500 at September 30, 2008.

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any monies accumulated in the Redemption Fund. Pledged Education Tax Revenues currently exceed the Commission's debt service requirements under the LO Series 2004-A Warrants and the LO Series 2005-A and 2005-B Warrants by approximately $14,450 per year. The Commission used the excess Pledged Education Tax Revenues to redeem portions of the LO Series 2005-A Warrants during fiscal 2008.

A Notice of Default was issued by U.S. Bank dated December 28, 2009, as discussed further in Notes J and V.

Lease Revenue Warrants, Series 2006
On August 1, 2006, the Jefferson County Public Building Authority (the Building Authority) issued $86,745 of tax-exempt Lease Revenue Warrants, Series 2006 (LR Series 2006 Warrants). These warrants were issued for the purposes of financing capital projects for the Jefferson County Public Building Authority, including a new courthouse in Bessemer, renovation of the existing courthouse and county jail in Bessemer and construction of an E911 communications center office building, providing a debt service reserve fund and paying related issuance costs.

NOTE J - WARRANTS PAYABLE - Continued

While the Commission is not the issuer of the LR Series 2006 Warrants, the Building Authority's payment obligations under the LR Series 2006 Warrants are secured by lease revenues generated by the Commission's lease of the above-referenced buildings from the Building Authority. The LR Series 2006 Warrants are secured by a bond insurance policy issued by Ambac (filed bankruptcy in November 2010; see Note V). The outstanding principal balance of the LR Series 2006 Warrants was $85,755 at September 30, 2008.

For statement of cash flow purposes, the face amount of warrants issued is reported as other financing sources. Premiums received on warrant issuances are reported as other financing sources while discounts on warrant issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual warrant proceeds received, are reported as debt (warrant) service expenditures.

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2008. Activity related to the long-term debt is as follows:

Issue	Balance at September 30, 2007	Additions	Payments	Balance at September 30, 2008	Due within One Year
Business-Type Activities:					
Series 1997-A Warrants	$ 57,030	$ -	$ -	$ 57,030	$ -
Series 2001-A Warrants	14,570	-	830	13,740	870
Series 2002-A Warrants	110,000	-	8,535	101,465	101,465
Series 2002-C Warrants	836,800	-	30,062	806,738	155,091
Series 2003-A Warrants	28,275	-	3,055	25,220	3,180
Series 2003-B Warrants	1,155,765	-	18,740	1,137,025	109,347
Series 2003-C Warrants	1,052,025	-	-	1,052,025	2,700
	3,254,465	-	61,222	3,193,243	372,653
Governmental Activities:					
Series 2001-A GO Warrants	36,800	-	8,615	28,185	8,990
Series 2001-B GO Warrants	120,000	-	-	120,000	15,000
Series 2003-A GO Warrants	62,125	-	5,815	56,310	6,145
Series 2004-A GO Warrants	51,020	-	-	51,020	-
Series 2004-A LO Warrants	629,080	-	21,965	607,115	23,065
Series 2005-A&B LO Warrants	343,100	-	24,600	318,500	10,450
Series 2006 Lease Warrants	86,745	-	990	85,755	1,035
	1,328,870	-	61,985	1,266,885	64,685
	$ 4,583,335	$ -	$ 123,207	$ 4,460,128	$ 437,338

Also, see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund.

NOTE J - WARRANTS PAYABLE - Continued

Standby Warrant Purchase Agreements

Under the terms of the Indenture, holders of certain variable rate demand warrants (Business-Type Activities - Series 2002-A, 2002-C and 2003-B and Governmental Activities - Series 2001-B and 2005-B) have the right to tender such warrants for purchase in whole or in part on any business day at a purchase price equal to 100 percent of the principal amounts of such warrants.

The Commission entered into Standby Warrant Purchase Agreements between 2001 and 2005 with various banks, which provide for the purchase of such variable rate demand warrants that are subject to purchase pursuant to the optional tender terms and conditions of the related Sewer Warrants Indenture or Governmental Warrants Trust Indentures, but not remarketed.

Under the terms of these Standby Warrant Purchase Agreements, substantially all of these warrants were tendered during the current year by the warrant holders for purchase. Pursuant to the Standby Warrant Purchase Agreements, the Liquidity Providers have repurchased those of the warrants described in the preceding paragraph that have been so tendered. This resulted in the acceleration of certain warrant payments (under optional and mandatory tender of warrants) and notices of events of defaults on certain warrant and related agreements. The Commission entered into certain Forbearance Agreements to forbear any action while efforts are made to restructure the warrant obligations.

The Trustees issued Notices of Default for the Indenture and Trust Indenture that states the circumstances described therein will become an Event of Default if not cured within 30 days of the date of the notice. Further discussion is included in Note V.

In addition, as a result of the notices of events of defaults, the interest rates on certain warrant and related agreements have increased to the default rate of interest, which is a much higher rate than that previously incurred by the Commission. See Note V for a discussion of the impact on interest rates and payments.

The Commission received a Notice of Default under Standby Warrant Purchase Agreement dated May 6, 2010 from Depfa Bank PLC. Depfa Bank became a holder of approximately $179,750 of tendered warrants on February 14, 2008 pursuant to the Standby Warrant Purchase Agreement for the Limited Obligation School Warrants Series 2005-B.

NOTE J - WARRANTS PAYABLE - Continued

Depfa Bank claims that the Commission failed to give them priority regarding certain redemptions of warrants with excess tax proceeds on or about March 1, 2008. Depfa further notes the defaults described in the December 28, 2009 Notice (discussed above). As a result, Depfa Bank has exercised its right to charge the default rate of interest as allowed under the Agreement and notified the Commission.

The following is a schedule of debt service requirements for the outstanding warrants to maturity under the original payment and interest terms as specified in the various Indentures (in thousands):

Fiscal Year Ending September 30	Business-Type Activities		Governmental Activities		Total Principal and Interest Requirements to Maturity		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2009	$ 15,150	$ 229,219	$ 49,685	$ 71,585	$ 64,835	$ 300,804	$ 365,639
2010	23,970	227,578	48,910	68,991	72,880	296,569	369,449
2011	32,195	225,306	49,770	66,430	81,965	291,736	373,701
2012	33,560	222,936	54,970	63,350	88,530	286,286	374,816
2013	35,035	220,508	57,540	59,941	92,575	280,449	373,024
2014-2018	204,785	1,060,735	330,680	242,415	535,465	1,303,150	1,838,615
2019-2023	283,310	973,698	402,520	132,693	685,830	1,106,391	1,792,221
2024-2028	448,850	831,424	272,810	23,677	721,660	855,101	1,576,761
2029-2033	490,975	658,358	-	-	490,975	658,358	1,149,333
2034-2038	719,850	443,559	-	-	719,850	443,559	1,163,409
2039-2043	905,563	97,498	-	-	905,563	97,498	1,003,061
	$ 3,193,243	$ 5,190,819	$ 1,266,885	$ 729,082	$ 4,460,128	$ 5,919,901	$ 10,380,029

Also, see Note P for warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund.

NOTE J - WARRANTS PAYABLE - Continued

The accelerated payments resulted in a revised payment schedule. The following table reflects the debt service requirements for the outstanding principal amounts on the warrants, including the acceleration of certain warrant payments due to repurchase made by the Liquidity Providers under the Standby Warrant Purchase Agreements described in the preceding paragraphs (in thousands):

Fiscal Year Ending September 30	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2009	$ 372,653	$ 64,685	$ 437,338
2010	193,545	132,860	326,405
2011	201,645	69,560	271,205
2012	116,496	45,275	161,771
2013	31,457	47,390	78,847
2014-2018	184,703	272,405	457,108
2019-2023	203,191	361,900	565,091
2024-2028	316,967	272,810	589,777
2029-2033	415,785	-	415,785
2034-2038	460,940	-	460,940
2039-2043	695,861	-	695,861
	$ 3,193,243	$ 1,266,885	$ 4,460,128

NOTE J - WARRANTS PAYABLE - Continued

While a restructuring of the warrant obligations could result in a revised payment schedule based on due on demand, the following table reflects the debt service requirements for the outstanding principal amounts on the warrants, including the acceleration of certain warrant payments due to repurchase made by the Liquidity Providers under the Standby Warrant Purchase Agreements described in the preceding paragraphs (in thousands):

Fiscal Year Ending September 30	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2009	$ 372,653	$ 64,685	$ 437,338
2010	2,820,590	989,940	3,810,530
2011	-	32,980	32,980
2012	-	7,010	7,010
2013	-	7,320	7,320
2014-2018	-	42,170	42,170
2019-2023	-	71,885	71,885
2024-2028	-	50,895	50,895
2029-2033	-	-	-
2034-2038	-	-	-
2039-2043	-	-	-
	$ 3,193,243	$ 1,266,885	$ 4,460,128

While the Notice of Default changes the status of the warrants to "demand bonds" (which are deemed callable under *GASB Interpretation No. 1*), the Trustee has not accelerated the payments due on the fixed rate or auction rate warrants. The Variable Rate Demand Warrants were called for redemption during the current year and are payable over a three-year period commencing on the date of tender. Also, see discussion in Note S regarding potential claims.

NOTE J - WARRANTS PAYABLE - Continued

Defeasance of Warrants and Deferred Loss on Refundings (in thousands)
In prior years, the Commission advance refunded certain revenue warrants by placing the proceeds of the new warrants in irrevocable trust accounts to provide for payment of all future debt service requirements, including the ultimate repayment of the warrants outstanding. The refundings pertaining to each warrant issue are noted in the descriptions of the warrants above. These warrants are defeased under the terms of the Indenture. Accordingly, the trust account assets and the liability for the defeased warrants are not included on the Commission's financial statements. At September 30, 2008, warrants of $2,255,290 ($2,227,330 of Business-Type Activities and $27,960 of Governmental Activities) are outstanding, and the related fair market value of the escrow account balances for these defeased warrants held in trust that totals $2,428,079 ($2,396,009 Enterprise Fund and $32,070 Governmental Fund) at September 30, 2008.

NOTE J - WARRANTS PAYABLE - Continued

Warrant Issuance Costs and Premiums

The Commission has issuance costs, losses on refundings of debt, as well as premiums and discounts, in connection with the issuance of its warrants. The issuance costs, losses on refundings and premiums and discounts are being amortized using the straight-line method. The balances in these accounts for the Commission are as follows:

	(In Thousands)		
	Premiums (Discounts) Net	Issuance Costs	Deferred Loss on Refundings
Business-Type Activities:			
Total premiums (discounts), net issuance costs, deferred loss on refundings	$ 6,570	$ 72,853	$ 360,618
Accreted (amortized), net in prior years	1,074	(8,877)	(48,555)
	7,644	63,976	312,063
Current year (amortization) accretion, net	(1,597)	(9,400)	(10,748)
Net balance at September 30, 2008	$ 6,047	$ 54,576	$ 301,315
Governmental Activities:			
Total premiums (discounts), net issuance costs, deferred loss on refundings	$ 51,347	$ 19,128	$ 1,793
Accreted (amortized), net in prior years	(8,840)	(3,215)	(1,153)
	42,507	15,913	640
Current year (amortization) accretion, net	(2,535)	(1,220)	(256)
Net balance at September 30, 2008	$ 39,972	$ 14,693	$ 384
Commission total:			
Total premiums (discounts), net issuance costs, deferred loss on refundings	$ 57,917	$ 91,981	$ 362,411
Accreted (amortized), net in prior years	(7,766)	(12,092)	(49,708)
	50,151	79,889	312,703
Current year (amortization) accretion, net	(4,132)	(10,620)	(11,004)
Net balance at September 30, 2008	$ 46,019	$ 69,269	$ 301,699

NOTE J - WARRANTS PAYABLE - Continued

Also, see Note P for discounts and deferred loss on refundings attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund. Issuance costs attributable to the Jefferson County Economic and Industrial Development Authority and Landfill Operations are reflected in the combining statement of net assets - nonmajor enterprise funds.

Accrued Arbitrage Rebate (amounts in thousands)
Sections 148(f)(2) and 1.148-1 to 11 of the Internal Revenue Code of 1986, as amended, require any entity issuing tax-exempt warrants to have computations of potential rebate amounts for investment earnings in excess of prescribed allowed amounts for tax-exempt warrants proceeds that have not been expended.

The Commission must make installment payments in an amount equal to 90 percent of the rebatable arbitrage within 60 days of a rebate computation date, which is the end of the fifth bond year and each five-year period thereafter. In addition, certain exceptions may apply that may limit the rebate amount, and special rules exist relating to retired warrant issues.

The Commission has periodic arbitrage rebate calculations performed on tax-exempt bonds and accrues arbitrage rebates based on those calculations. The Commission obtained the arbitrage rebate calculations for the Business-Type Activities' tax-exempt warrants and has recorded accrued arbitrage rebates of $63 as of September 30, 2008. The Commission obtained the arbitrage rebate calculations for the Governmental Activities' tax-exempt warrants and has recorded accrued arbitrage rebates of $39,723 as of September 30, 2008.

NOTE J - WARRANTS PAYABLE - Continued

Restricted Debt Service Accounts (amounts in thousands)

Business-Type Activities
In accordance with the Indenture, the Commission maintains a debt service fund to which it deposits principal and interest amounts due. A reserve fund or surety policies are required to be maintained at the lesser of (a) 125 percent 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 percent of the original principal amount of outstanding parity securities. In addition, the Commission maintains a rate stabilization fund which is maintained at a balance of 75 percent of the maximum annual debt service on the outstanding parity securities, subject to the availability of cash, and a depreciation fund which will grow to an amount equal to or greater than the accumulated depreciation of the Sanitary Operations Fund, subject to the availability of cash.

In accordance with the terms of the Indenture, the Commission obtained surety policies for the reserve fund for certain warrant issues. The rate stabilization fund has no balance at September 30, 2008.

The Trustee authorized disbursements from certain reserve funds held for the Business-Type Activities Warrant funds for payment of approximately $6 million of principal and interest due during fiscal 2008.

In addition, the proceeds from each warrant issue are placed in an escrow account to be disbursed based on approved expenditures for the proceeds. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted cash and investments related to the warrant agreements totaled $187,638 at September 30, 2008. See Note D for a discussion of the investments held at year end and Note V for events subsequent to year end.

Governmental Activities
The proceeds from each warrant issue are placed in an escrow account to be disbursed based on approved expenditures. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted cash and investments totaled $201,994 at September 30, 2008. See Note D for discussion of the investments held at year end.

NOTE J - WARRANTS PAYABLE - Continued

Continuing Disclosures

The Commission is required to provide certain continuing disclosures with respect to the Indentures and warrants outstanding in accordance with Rule 15c2-12 of the U.S. Securities and Exchange Commission under the Securities Exchange Act of 1934.

Under the continuing disclosure agreements, the Commission has covenanted for the benefit of the holders of certain warrants under the various Indentures to provide certain information repositories with certain financial information and operating data relating to the Commission on an annual basis within 180 days after the end of its fiscal year and material events notices of the occurrence of certain events, if deemed material. The Annual Financial Information is required to be filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) as designated by the Securities and Exchange Commission and any Alabama state information depository.

Material events notices are required to be filed with each NRMSIR and any Alabama state information depository or the Municipal Securities Rulemaking Board and any Alabama state information repository. Such material events include delinquency in payments of principal or interest, nonpayment related defaults, unscheduled draws on any debt service reserves reflecting financial difficulties of the Commission, unscheduled draws on any credit enhancements reflecting financial difficulty, substitution of a credit or liquidity provider or the failure of any credit or liquidity provider to perform, existence of any adverse tax opinion or events affecting the tax-exempt status of the warrants, modification of the rights of the holders of the warrants, redemption of any warrants prior to stated or mandatory redemption dates, defeasance of the warrants, release, substitution or sale of the property securing repayment of the warrants or any changes in the ratings of the warrants.

The Commission has issued numerous material events notices for events that occurred during fiscal 2008 described below and subsequent to September 30, 2008, including notices of events of default for certain agreements. See Note V for subsequent event disclosures regarding additional material events notices, forbearance agreements and other matters that relate to the warrant agreements.

NOTE J - WARRANTS PAYABLE - Continued

The following is information required for the benefit of the holders of the Sewer Revenue Warrants (unaudited):

	Fiscal Year Ended September 30,			
	2008	2007	2006	2005
Active accounts	143,576	162,911	160,059	143,818
Average daily treatments volume (millions of gallons treated)	92	84	112	126
Sewer charges (000's)	$167,159	$153,472	$132,954	$127,756
% Revenue - largest customer	1.35%	1.77%	1.85%	1.56%
% Revenue - top 10 customers	5.32%	5.77%	7.48%	7.60%

2008 Top 10 Customers	Consumption (in Gallons)	Billed
U.S. Steel	491,094	$ 2,270,050
University of Alabama at Birmingham	150,751	1,090,860
Brookwood Medical Center	110,163	801,857
SMI Steel, Inc.	105,349	768,280
Veterans' Administration	100,033	727,023
Barber's Pure Milk Company	123,721	723,184
The Children's Hospital	95,256	689,152
Trinity Medical Center	87,560	636,246
Samford University	83,692	606,721
Sunnyland Refining Company	79,436	572,709
	1,427,055	$ 8,886,082

Effective January 1, 2007, the Commission 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. The Commission also implemented a planned rate increase effective as of January 1, 2008, as required by the covenants of the Indenture. However, a rate increase was not implemented as of January 1, 2009 or 2010 because the proper application of the rate covenant is one of the issues in the litigation with the Trustee and bond insurers (see Note V for a discussion of subsequent events).

NOTE J - WARRANTS PAYABLE - Continued

Municipal Bond Insurance Policy

Concurrent with the issuance of the warrants, National (formerly known as MBIA), Ambac Assurance Corporation (Ambac), Financial Guaranty Insurance Company (FGIC), Syncora Guarantee, Inc. (Syncora) (formerly known as XL Capital Assurance, Inc.) or Assured Guaranty Municipal Corporation (AGM) (formerly known as Financial Security Assurance, Inc.) issued municipal bond (warrant) insurance policies for all revenue warrant issues, except the Enterprise Fund Sewer Warrant Series 2003-A, Governmental Fund General Obligation Warrant 2001-B and certain Limited Obligation School Warrants Series 2004-A. The insurance policies unconditionally guarantee the payment of that portion of the principal and interest on the warrants, which becomes due and is unpaid by reason of nonpayment by Jefferson County, Alabama. The insurance policies are noncancelable, and the premium is fully paid at the time of delivery of the warrants. The insurance policies cover failure to pay principal of said warrants on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption and covers the failure to pay an installment of interest on the stated date for its payment.

Generally, in connection with its insurance of an issue of municipal securities, the insurance company requires, among other things, that it be granted the power to exercise any rights granted to the holders of such securities upon the occurrence of an event of default, without the consent of such holders, and that such holders may not exercise such rights without the insurance company's consent, so long as the insurance company has not failed to comply with its payment obligations under its insurance policy and that any amendment or supplement to or other modification of the principal legal documents be subject to the insurance company's consent.

Certain events occurred during the current year and subsequent to year end, see Note V - Subsequent Events, as discussed below, resulting in rating downgrades for the insurers of the warrants. As a result of the deteriorating financial condition of Jefferson County during fiscal 2008 and subsequent periods, certain payments of principal and interest were made on their behalf by the insurers during and subsequent to fiscal 2008. These amounts are disclosed in this report and are currently payable from Jefferson County to the insurers. As discussed in the September 22, 2008, Material Event Notice below, FGIC and Syncora directed the Trustee to initiate a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the Jefferson County Sewer System. A receiver was appointed subsequent to year end as disclosed in Note V - Subsequent Events. Also, subsequent to year end, Ambac filed for Chapter 11 bankruptcy protection as further disclosed in Note V - Subsequent Events.

NOTE J - WARRANTS PAYABLE - Continued

Business-Type Activities

Material Events Notices

February 20, 2008 - The February 20, 2008, Material Event Notice disclosed rating downgrades from S&P, Fitch Ratings Ltd. (Fitch) and Moody's on the long-term ratings assigned to the warrants insured by Financial Guaranty Insurance Company (FGIC) and Syncora. The ratings assigned to warrants insured by FGIC were reduced from 'AAA' to 'AA' by S&P and Fitch and from 'Aaa' to 'A3' by Moody's. The ratings assigned to the warrants insured by Syncora were reduced from 'AAA' to 'A3' by Moody's and from 'Aaa' to 'A' by Fitch. The rating downgrades were in conjunction with the reductions of the rating agency's financial strength and financial enhancement ratings of FGIC and Syncora.

As permitted by the Indenture, the Commission substituted a surety bond in the debt service reserve fund and withdrew certain cash and investments from the fund during April 2005. The Indenture specifies required ratings for such surety bonds. The downgrade of FGIC to 'A3' by Moody's and to 'AA' by S&P caused the FGIC surety bond ($19,884) held by the Trustee in the Reserve Fund to fail the ratings requirements of the Indenture. See Substitution of Surety Bonds in Reserve Fund discussion below.

The holders of the Variable Rate Demand Sewer Revenue Warrants have the right to tender such warrants for purchase at par, plus accrued interest upon seven days' notice. To provide a source of funds for purchase of such warrants subject to optional or mandatory tender, the Commission entered into Standby Warrant Purchase Agreements (each, a Liquidity Facility) with a number of different banks (each, a Liquidity Provider). See discussion below for the impact of rating changes and potential termination events.

February 27, 2008 - The February 27, 2008, Material Event Notice disclosed rating downgrades on the long-term ratings assigned to the warrants insured by FGIC and Syncora. The long-term ratings assigned to the warrants insured by FGIC and Syncora were further reduced from 'AA' to 'A' and from 'AAA' to 'A-' by S&P in conjunction with the corresponding reduction of such rating agency's financial strength and financial enhancement ratings of FGIC and Syncora, respectively.

NOTE J - WARRANTS PAYABLE - Continued

S&P and Moody's (and Fitch on certain series of warrants) assigned underlying ratings to the various series of warrants at the time of their issuance based on the rating of the agencies' assessments of the Commission's ability to pay debt service on the warrants. The underlying ratings do not take into account credit enhancements, such as bond insurance, that may also be available to pay debt service. On February 22, 2008, the underlying rating assigned to the warrants by S&P was reduced from 'A' to 'BBB.' On February 26, 2008, the underlying rating assigned to the warrants by Moody's was reduced from 'A3' to 'Baa3.'

In prior years, the Commission entered into 13 separate interest rate swap agreements for Business-Type Activities' warrants (Note K). The downgrade of the Commission's underlying rating on the warrants to 'Baa3' by Moody's on February 20, 2008, resulted in the occurrence of an Additional Termination Event under each of the interest rate swap agreements since the Commission did not make certain additional collateral available or provide insurance to the counterparties for its obligations under the interest rate swap agreements by the specified date - see Interest Rate Swap Agreements Termination Events (Note K).

The downgrades of Syncora to 'A3' by Moody's and to 'A-' by S&P caused the Syncora surety bond ($164,864) held by the Trustee in the Reserve Fund to fail the ratings requirements of the Indenture. See Substitution of Surety Bonds in Reserve Fund discussion below.

March 4, 2008 - The March 4, 2008, Material Event Notice disclosed further rating downgrades on the underlying ratings assigned to the warrants. On February 22 and 29, 2008, S&P further reduced the underlying rating from 'A' to 'BBB' and from 'BBB' to 'B,' respectively. On February 26 and March 4, 2008, Moody's further reduced the underlying rating from 'A3' to Baa3' and from 'Baa3' to 'B3,' respectively.

The Commission notified the counterparties to the Swap Agreements that it did not presently intend to post collateral or provide insurance to the counterparties for its obligations under the interest rate swap agreements, resulting in the occurrence of an Additional Termination Event under each of the Swap Agreements on March 7, 2008. See Interest Rate Swap Agreements Termination Events (Note K).

NOTE J - WARRANTS PAYABLE - Continued

March 11, 2008 - The March 11, 2008, Material Event Notice disclosed further rating downgrades assigned to the underlying ratings of the various series of warrants. On March 6, 2008, the underlying rating assigned to the warrants by S&P was further reduced from 'B' to 'CCC.'

March 31, 2008 - The March 31, 2008, Material Event Notice disclosed further rating downgrades on the long-term ratings assigned to the warrants insured by FGIC and Syncora.

The long-term ratings assigned to the warrants insured by FGIC were further downgraded from 'AA' to 'BBB' by Fitch, from 'A' to 'BB' by S&P and from 'A3' to 'Baa3' by Moody's. The ratings of the warrants insured by Syncora were further reduced from 'A' to 'BB' by Fitch. The downgrades were in conjunction with the corresponding reduction of the rating agency's financial strength and financial enhancement ratings of FGIC and Syncora.

On March 27, 2008, the underlying rating assigned to the warrants by Moody's was further reduced from 'B3' to 'Caa3.'

As described above, an "Additional Termination Event" under each of the 13 Swap Agreements occurred on March 7, 2008. The Commission entered into a separate Forbearance Agreement and Reservation of Rights Agreement dated March 31, 2008, with each of the counterparties (collectively, the Swap Forbearance Agreements). See Interest Rate Swap Agreements Termination Events and Swap Forbearance Agreements (Note K).

As described in prior notices, certain notices of events of default have been received under the Standby Warrant Purchase Agreements (Liquidity Facilities), which have given each of the various banks (Liquidity Providers) the right to terminate its respective Liquidity Facility upon at least 25 days' notice, subject to the liquidity facility forbearance agreement. As a result, the Commission entered into a separate Forbearance Agreement and Reservation of Rights Agreement dated March 31, 2008 (collectively, the Liquidity Facility Forbearance Agreements), with each of the banks (Liquidity Agent and Liquidity Providers), the Trustee and insurers (Syncora and FGIC). See Liquidity Facility Forbearance Agreements discussion below.

NOTE J - WARRANTS PAYABLE - Continued

In addition, the further downgrade of FGIC to 'BB' by S&P resulted in an accelerated replenishment requirement for the FGIC surety bonds ($19,885) currently held by the Trustee in the Reserve Fund. See Substitution of Surety Bonds in Reserve Fund discussion below.

April 1, 2008 - The March 31, 2008, Material Event Notice disclosed the downgrade of the underlying rating assigned to the Series 2003 B-2 to B-7 Warrants by S&P from 'CCC' to 'D.' S&P announced that the downgrade was a result of the failure to make a principal payment when due on April 1, 2008; however, the Indenture does not include any requirement or other provision for an April 1, 2008, principal payment. Such a principal payment is provided for only in several Standby Warrant Purchase Agreements (Liquidity Facilities) as discussed above.

Prior to April 1, 2008, the Commission and all other parties to the Liquidity Facilities entered into forbearance agreements which provided, among other things, that the absence of a principal payment by the Commission on April 1, 2008, would not be regarded by any of such parties as a default under the Liquidity Facilities or under the Series 2003 B-2 to B-7 Warrants (see Liquidity Facility Forbearance Agreements discussion below). Consequently, the Commission maintained that no default occurred with respect to the Series 2003 B-2 to B-7 Warrants or with respect to any other warrants issued and outstanding under the Indenture. At the time of this notice, the Commission had received no notice of a default from the Trustee under the Indenture.

June 2, 2008 - The June 2, 2008, Material Event Notice disclosed that on May 30, 2008, the Commission entered into a separate letter agreement to further extend the forbearance period of the Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC and the counterparties to the swap agreements to July 31, 2008, subject to early termination upon the occurrence of certain events. Also, see Liquidity Facility Forbearance Agreements discussion below and Swap Forbearance Agreements (Note K).

NOTE J - WARRANTS PAYABLE - Continued

June 9, 2008 - The June 9, 2008, Material Event Notice disclosed the further downgrade of the warrants insured by Syncora from 'A-' to 'BBB-' by S&P. The downgrade was in conjunction with the corresponding reduction in rating agency's financial strength and financial enhancement ratings of Syncora. As a result of the earlier downgrades to FGIC described in prior notices discussed above, the Commission began making monthly cash deposits in the amount of $1.657 million to the Reserve Fund. The most recent downgrade of Syncora disqualifies the Syncora surety bond in the amount of $164,863. See Substitution of Surety Bonds in Reserve Fund discussion below.

June 30, 2008 - The June 30, 2008, Material Event Notice disclosed the further downgrade of the long-term warrants insured by Syncora from 'A3' to 'B2' by Moody's. The ratings for the warrants insured by FGIC were also further downgraded from 'Baa3' to 'B1' by Moody's. These downgrades are in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement ratings of Syncora and FGIC.

August 1, 2008 - The August 1, 2008, Material Event Notice disclosed the further downgrade of the long-term warrants insured by Syncora from 'BB' to 'CCC' and FGIC from 'BBB' to 'CCC' by Fitch in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement ratings of Syncora and FGIC.

August 13, 2008 - The August 13, 2008, Material Event Notice disclosed that on August 1, 2008, the Commission entered into a separate letter agreement to further extend the forbearance period under the Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC and the counterparties to the interest rate swap agreements to November 17, 2008, subject to early termination upon the occurrence of certain events.

Also, see Liquidity Facility Forbearance Agreements (Note V), Swap Forbearance Agreements (Note K), and additional events subsequent to year-end (Note V).

In connection with the extension of the forbearance agreements, interest payable on the warrants (at the bank interest rates) of $4,975 was paid by the Commission from monies withdrawn from the debt service reserve fund established under the Indenture (and replenished on August 4, 2008, from money transferred from restricted cash funds.

NOTE J - WARRANTS PAYABLE - Continued

September 10, 2008 - The September 10, 2008, Material Event Notice disclosed that on August 29, 2008, the Commission entered into a separate letter agreement to further extend the forbearance period for the Liquidity Facility Forbearance Agreements and one Swap Forbearance Agreement dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC and one counterparty to the interest rate swap agreement (Bank of America, N.A.) to September 30, 2008 (October 1, 2008, for Bank of America, N.A.), subject to early termination upon the occurrence of certain events. (Note that the other Swap Forbearance Agreements were previously extended to November 17, 2008.) Also see Liquidity Facility Forbearance Agreements discussion below and Swap Forbearance Agreements (Note K).

Interest due on the warrants beginning on September 1, 2008, was to be paid through the end of September from cash and surety bonds held in the debt service reserve fund established under the Indenture at the bank's rate of interest. The Trustee has indicated to the Commission that it will draw on the cash first but will also be required to draw on the surety bonds held in the debt service reserve fund to pay a portion of the interest due in September 2008. Syncora, FGIC and AGM have agreed to forbear through the end of September from requiring reimbursement from the Commission for any such draws on their surety bonds and have instructed the Trustee not to pursue remedies in connection with such draws on the debt service reserve fund at this time.

September 22, 2008 - The September 22, 2008, Material Event Notice disclosed the further downgrade of the underlying rating assigned to Series 1997A, Series 2001A, Series 2003 B-1-A to B-1-E and Series 2003 C-1 to C-10 Warrants by S&P from 'CCC' to 'C.' On September 11, 2008, the Liquidity Provider (JPMorgan Chase Bank) delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility for the outstanding Series 2002-A Warrants. The warrants are insured by FGIC.

The Termination Notice cites the occurrence and continuation of an Event of Default specified in Section 8.01(o) of the Liquidity Facility, relating to the downgrade of FGIC, as the grounds for termination of the Liquidity Facility. See Termination of Standby Warrant Purchase Agreement - Series 2002-A discussion below.

On September 16, 2008, the Trustee, at the direction of FGIC and Syncora, filed a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the Jefferson County sewer system. The lawsuit is pending in the United States District Court, Northern District of Alabama. A receiver was appointed for the Commission in fiscal 2011 as discussed in Note V. See Note S for discussion of pending litigation.

NOTE J - WARRANTS PAYABLE - Continued

Substitution of Surety Bonds in Reserve Fund

The Indenture requires the Commission to establish and maintain a debt service reserve fund (the Reserve Fund) at a level (the Reserve Fund Requirement) generally equal to the lesser of (a) 125 percent of the average annual debt service on all parity securities outstanding under the Indenture and secured by the Reserve Fund, (b) the maximum annual debt service on all parity securities outstanding under the Indenture and secured by the Reserve Fund or (c) 10 percent of the original principal amount (or in some cases, the issue price) of each series of parity securities outstanding under the Indenture and secured by the Reserve Fund.

The Indenture permits the Commission to satisfy the Reserve Fund Requirement through cash deposits or by delivery of a surety bond, insurance policy or letter of credit that satisfies the requirements of the Indenture. One such requirement is that any surety bond or insurance policy used to satisfy the Reserve Fund Requirement must be rated 'AAA' by S&P or 'Aaa' by Moody's. As of April 1, 2005, the Reserve Fund was funded by a combination of cash (and eligible federal securities) and surety bonds in the amount of $19,884 provided by FGIC.

As permitted by the Indenture, in April 2005, the Commission caused Syncora to deliver to the Trustee a Debt Service Reserve Insurance Policy pursuant to which up to $164,864 may be paid and caused AGM to deliver to the Trustee a Municipal Bond Debt Service Reserve Insurance Policy pursuant to which up to $26,422 may be paid.

Upon the delivery of the foregoing policies to the Trustee, the Commission withdrew $181,415 of cash and investments from the Reserve Fund and directed that the said cash and investments be deposited to a new fund to be held by the Trustee under a Deposit Agreement dated April 1, 2005, between the Commission and the Trustee (the Deposit Agreement). The Deposit Agreement permitted the use of such funds for sewer system improvements and to pay fees and expenses, including charges and expenses of the Trustee, incurred in connection with any of the foregoing.

In January 2007, the Commission and the Trustee entered into an Amendment to Deposit Agreement dated January 1, 2007 (the Amendment), which also permitted the Commission to withdraw such funds for deposit into any account or fund established under the Indenture or otherwise established by the Commission with respect to its sewer system obligations.

NOTE J - WARRANTS PAYABLE - Continued

On February 1, 2007, the Commission withdrew $32,547 of such funds, and on February 1, 2008, the Commission withdrew an additional $59,800 of such funds for the purpose of debt service on the Sewer Revenue Warrants. As a result of the downgrades to FGIC and related surety bonds, the Commission began making monthly cash transfers of $1,657 to the Reserve Fund, as further described in the following paragraph. As of September 30, 2008, the balance in the fund was $29,438.

In March 2008, S&P and Moody's downgraded FGIC, resulting in an accelerated replenishment requirement for the FGIC surety bonds (in the aggregate amount of $19,884) currently held by the Trustee in the Reserve Fund (as discussed above). The Indenture requires the Commission to (a) substitute a surety bond, insurance policy or letter of credit that satisfies the requirements of the Indenture within six months or (b) restore the Reserve Fund to a level equal to the Reserve Fund Requirement by making cash deposits to the Reserve Fund over a period of one year in equal monthly installments ($1,657 per month).

In June 2008, S&P and Moody's downgraded Syncora, resulting in an accelerated replenishment requirement, subject to the same requirements described in the immediately preceding paragraph, for the Syncora surety bonds (in the aggregate amount of $164,864) currently held by the Trustee in the Reserve Fund.

The Trustee has been required to draw on the Reserve Fund to pay a portion of the debt service on the Warrants that were due in September, October, November and December 2008 totaling $40,918 of draws on the Reserve Fund. If net sewer revenues continue to be insufficient to meet the debt service obligations of the Warrants, the Trustee will be required to draw first on the Reserve Fund and then, if necessary, on the municipal bond insurance policies insuring the warrants to cover any deficiency.

Event of Default under Standby Warrant Purchase Agreements

The holders of the Variable Rate Demand Sewer Revenue Warrants have the right to tender such warrants for purchase at par plus accrued interest upon seven days' notice. Also, under certain circumstances, the holders of Variable Rate Demand Sewer Revenue Warrants are required to surrender such warrants for purchase (i.e., a mandatory tender) at par, plus accrued interest. To provide a source of funds for the payment of the purchase price of such tendered warrants, the Commission entered into Standby Warrant Purchase Agreements (each, a Liquidity Facility) with JPMorgan Chase Bank (Liquidity Agent) and various banks (each, a Liquidity Provider).

NOTE J - WARRANTS PAYABLE - Continued

Any tendered Variable Rate Demand Sewer Revenue Warrant that is purchased by the applicable Liquidity Provider (a Bank Warrant) will bear interest at a higher rate (either the Bank Rate or the Default Rate) during the period in which it is held by such Liquidity Provider. The Bank Rates specified under the Liquidity Facilities range from one percent to three percent over the Liquidity Provider's Base Rate, depending on how long the warrant is held as a Bank Warrant. The Base Rate is generally the greater of the federal funds rate plus one-half of one percent, or the prime rate adopted by the Liquidity Provider. Upon the occurrence and during the continuation of an event of default under a Liquidity Facility, interest on Bank Warrants purchased by such Liquidity Provider accrues at the Default Rate, which ranges from two percent to three percent over the Bank Rate under the Liquidity Facilities.

Also, the Commission covenanted in each Liquidity Facility to effect an optional redemption of Bank Warrants in 16 equal quarterly principal installments, with the first installment being payable on the first business day of the January, April, July or October that first occurs on or following the tender date for the Bank Warrants in question. Such obligation to redeem a particular Bank Warrant will terminate when that warrant is remarketed or refinanced.

The ratings downgrades reported above for FGIC and Syncora constitute an event of default under the Standby Warrant Purchase Agreement for each of the Liquidity Facilities. As a result of the reported event of default, each Liquidity Provider has the right to terminate its respective Liquidity Facility upon at least 25 days' notice. On September 11, 2008, a termination notice was delivered on the Series 2002-A Standby Warrant Purchase Agreement to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility. See Termination of Standby Warrant Purchase Agreement - Series 2002-A for further discussion.

The ratings downgrade and event of default, among other events, have resulted in holders of the Variable Rate Demand Sewer Revenue Warrants tendering such warrants to the Liquidity Providers for payment. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers have repurchased all of the Variable Rate Demand Sewer Revenue Warrants (Series 2002-A Warrants, Series 2002-C Warrants and Series 2003-B Warrants) as of October 31, 2008, none of which have been remarketed as of such date.

NOTE J - WARRANTS PAYABLE - Continued

The Liquidity Facility Agreement with the Liquidity Providers for certain of these warrants (Series 2002-C and Series 2003-B) expired during fiscal 2008 (Series 2002-A expires in February 2009 but was terminated in September 2008 - see below). The Commission received a Notice of Redemption of Bank Warrants dated April 15, 2008, relating to the Standby Warrant Purchase Agreements. The tendered warrants are to be repaid by the Commission, if such warrants are not remarketed, over an accelerated schedule equal to 16 equal semiannual installments from the date the banks (Liquidity Providers) purchased such warrants (except for the Series 2002-A Warrants as discussed below under Termination of Standby Warrant Purchase Agreement - Series 2002-A).

The Liquidity Agent (JPMorgan Chase Bank) entered into Redemption Date Deferral Agreements with the Commission related to the Series 2002-C-2 warrants to defer the payments due to the Liquidity Agent and Providers to February 20, 2009, if a partial payment of $4,605 (originally due on December 8, 2008) was made by the Commission on or before January 2, 2009. The amount due at the expiration of the Liquidity Facility Forbearance Agreements, if such warrants are not remarketed as of October 29, 2008 per the Redemption Date Deferral Agreements, totaled approximately $34,865.

In addition, the Commission entered into forbearance agreements with the Liquidity Providers (Liquidity Agreement Forbearance Agreements - discussed below) and has repaid a portion of the outstanding obligation for the tendered warrants.

Termination of Standby Warrant Purchase Agreement - Series 2002-A

The holders of the Series 2002-A Warrants have the right to tender the warrants for purchase at par plus accrued interest with seven days' notice. Under certain circumstances, the holders of the Series 2002-A Warrants are required to surrender the warrants for the purchase at par plus accrued interest. The Series 2002-Warrants are insured by FGIC.

On September 11, 2008, the Liquidity Provider delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility. The notice cited the occurrence and continuation of an Event of Default specified in Section 8.01(o) of the Liquidity Facility, relating to the downgrade of FGIC, as the grounds for the termination of the Liquidity Facility. Pursuant to the Termination Notice and Section 8.02(b) of the Liquidity Facility, the Liquidity Facility will terminate 20 days after the receipt by the Trustee of the Termination Notice.

NOTE J - WARRANTS PAYABLE - Continued

As a result of the Termination Notice, the holders of the Series 2002-A Warrants were required to tender such warrants for the purchase pursuant to the mandatory tender provisions of the Indenture prior to the termination of the Liquidity Facility.

Pursuant to the Liquidity Facility, as a result of the occurrence and continuation of the Event of Default specified in Section 8.01(o) of the Liquidity Facility, the Commission is required to redeem all Series 2002-A Warrants held by the Liquidity Provider in four equal quarterly installments, beginning October 1, 2008. The Liquidity Provider authorized the Trustee to defer to February 20, 2009, any remaining unpaid quarterly installments that were previously scheduled to be redeemed by the Commission (on January 1, 2009) if an additional partial payment of $25.365 (originally due on December 8, 2008) was made on or before January 2, 2009.

Liquidity Facility Forbearance Agreements
As a result of certain events of default, which are described above related to the Standby Warrant Purchase Agreement (Liquidity Facility), on March 31, 2008, the Commission entered into separate Forbearance Agreements and Reservation of Rights (collectively, the Liquidity Facility Forbearance Agreements) with each bank (Liquidity Provider), JPMorgan Chase Bank (Liquidity Agent), The Bank of New York Mellon (Trustee), Syncora and FGIC.

The Liquidity Facility Forbearance Agreements generally provide that, during the forbearance period, the Liquidity Providers will forbear from exercising any rights or remedies that the Liquidity Providers have or may have, now or hereafter, arising during the forbearance period as a result of any and all defaults and events of defaults existing under the Liquidity Facilities. The initial forbearance period expired on April 15, 2008, and was extended to July 31, 2009 (JPMorgan Chase Bank) or June 30, 2009 (all others), subject to termination at any time at the discretion of the Liquidity Providers.

The Liquidity Facility Forbearance Agreements also provide that the Commission will pay interest on the Bank Warrants at the rate equal to the base rate plus 1.00 percent during the forbearance period, although interest on the Bank Warrants has and will continue to accrue interest at the default rate (see Impact on Interest Rates and Payments section below for definitions of base and default rates). The difference between the interest accrued at the default rate and the interest paid to the Liquidity Providers during the forbearance period was due on August 1, 2008, but was extended to June 30, 2009 for all Liquidity Providers except for JPMorgan Chase Bank, for which it was extended to July 31, 2009.

NOTE J - WARRANTS PAYABLE - Continued

The Liquidity Facility Forbearance Agreements further provide that the optional quarterly principal redemptions of the Bank Warrants (described in the Event of Default under Standby Warrant Purchase Agreements and Termination of Standby Warrant Purchase Agreement - Series 2002-A sections above) that become due during the forbearance period and remain unpaid will occur upon the expiration of the Liquidity Facility Forbearance Agreements and that, until the expiration of the forbearance period, no additional event of default will occur under the Liquidity Facilities.

Such payment dates are subject to change if the forbearance period is further extended with the consent of all parties, or the Liquidity Facility Forbearance Agreements are terminated prior to their stated expiration in accordance with their terms.

Impact on Interest Rates and Payments
As a result of the rating downgrades experienced on the underlying warrants and the disruption in the financial markets, among other events, the interest rates borne by all but $300 of the Variable Rate Demand Sewer Revenue Warrants and the Auction Rate Sewer Revenue Warrants increased significantly during 2008.

As of September 30, 2008, the interest rates borne by the Variable Rate Demand Sewer Revenue Warrants ranged from 3.0 percent to 10.0 percent, and the interest rates borne by the Auction Rate Sewer Revenue Warrants ranged from 4.0 percent to 11.0 percent. During recent auctions, or as a result of failed auctions, the reset rate for the Auction Rate Sewer Revenue Warrants was set at or close to the maximum auction rate allowed under the Indenture.

In addition to the interest rate increases on the Variable Rate Demand Sewer Revenue Warrants and the Auction Rate Sewer Revenue Warrants, the floating rate payments received by the Commission under its Swap Agreements (Note K) that are intended to offset interest payments on the Variable Rate Demand Sewer Revenue Warrants and the Auction Rate Sewer Revenue Warrants decreased as a result of a fall in short-term interest rates, such as one-month LIBOR. The Commission receives 67 percent of one-month LIBOR as floating rate payments under a majority of the Swap Agreements.

Further, in connection with the Swap Forbearance Agreements, the counterparties have not been required to make any such payments to the Commission since March 31, 2008 (likewise the Commission has not made any payments to the counterparties that would have otherwise been due during the forbearance period).

NOTE J - WARRANTS PAYABLE - Continued

The Maximum Auction Rate under the Indenture is the lower of 18 percent or the Applicable Percentage (shown below) times the higher of (a) the one-month LIBOR rate or (b) the After-Tax Equivalent Rate. The ratings used to determine the "Applicable Percentage" are those assigned by S&P and Moody's, with the lower rating controlling if those two ratings are at different levels.

Prevailing Rating	Applicable Percentage
AAA/Aaa	125%
AA/Aa	150%
A/A	200%
BBB/Baa	250%
Below BBB/Baa	275%

Trustee Notices of Default

October 15, 2008 - The Trustee delivered a Notice of Default to the Commission by letter dated October 15, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission (a) to apply the monies in the Revenue Account that remain after the payment of Operating Expenses for payment into the Debt Service Fund, the Reserve Fund, the Rate Stabilization Fund and the Depreciation Fund, in such order and in such amounts and at such times as required by the Indenture, (b) to fix, revise and maintain such rates for services furnished by the Sewer System as shall be sufficient (i) to provide for the payment of the interest and premium (if any) on and the principal of the parity securities, as and when the same shall become due and payable, (ii) to provide for the payment of the Operating Expenses and (iii) to enable the Commission to perform and comply with all of its covenants contained in the Indenture, in each case as required by Section 12.5(a) of the Indenture and (c) to make from time to time, to the extent permitted by law, such increases and other changes in such rates and charges as may be necessary to comply with the provision of Section 12.5(a) of the Indenture, as required by Section 12.5(b) of the Indenture. These covenant defaults will become Events of Default under Section 13.1(c) if not cured within 30 days of the date of the Notice of Default.

NOTE J - WARRANTS PAYABLE - Continued

The Notice of Default also states that certain Events of Default under the Indenture have occurred and are continuing (a) under Section 13.1(a) of the indenture as a result of the failure of the Commission to make payment of approximately $87,473 in principal installments due on parity securities previously called for redemption on June 1, August 1 and October 1, 2008, pursuant to the terms of the Indenture and certain Standby Warrant Purchase Agreements executed by the Commission and certain liquidity banks in connection with the issue of certain of the parity securities outstanding under the Indenture and (b) under Section 13.1(b) of the Indenture as a result of the failure of the Commission to comply with the Rate Covenant set forth in Section 12.5(b) of the Indenture.

As discussed in the September 22, 2008, Material Event Notice (above). the Trustee, at the direction of FGIC and Syncora filed a lawsuit against the Commission seeking. among other relief, the appointment of a receiver over the County Sewer System. The lawsuit is pending in the U.S. District Court, Northern District of Alabama. A receiver was appointed for the Commission in fiscal 2011. The Trustee asserted, among other grounds, the existence of such covenant defaults and Events of Default described in the Notice of Default as the basis for the relief sought in the lawsuit. See Note S - Contingent Liabilities and Litigation for further discussion.

The Commission denied the existence of such covenant defaults and Events of Default in its answer to the complaint filed by the plaintiffs. The court has not made determination on the existence of such covenant defaults or Events of Default.

November 14, 2008 - The Trustee delivered a Notice of Default to the Commission by letter dated November 14, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission to (a) pay into the Reserve Fund on or before September 15, 2008 and October 15, 2008, amounts required by Section 11.3 of the Indenture for the purpose of restoring the balance of the Reserve Fund to the Reserve Fund Requirement and (b) to pay into the Reserve Fund monthly payments for the months of September and October 2008, required by Section 11.11 of the Indenture as a result of the downgrade in the respective ratings of Syncora and FGIC. These covenant defaults will become Events of Default under Section 13.1(c) of the Indenture if not cured within 30 days of the date of the notice.

NOTE J - WARRANTS PAYABLE - Continued

December 19, 2008 - The Trustee delivered a Notice of Default to the Commission by letter dated December 19, 2008, pursuant to Section 13.1(c) of the Indenture. The Notice of Default states that Jefferson County is in violation of certain covenants set forth in the Indenture (including failure to comply with Section 12.5(c) of the Indenture which requires certain calculations to determine compliance with the Rate Covenant) and that such covenant defaults will become Events of Default, as defined in Section 13.1(c) of the Indenture, if not cured within 30 days of the date of the Notice of Default.

The Notice of Default also states that certain Events of Default have occurred, resulting from failure to comply with Sections 11.3 and 11.11 of the Indenture which requires the Reserve Fund balance to be restored on or before November and December 2008, as a result of the downgrade in the respective ratings of Syncora and FGIC.

February 17, 2009 - The Trustee delivered a Notice of Default to the Commission dated February 17, 2009 pursuant to Section 13.1c of the Indenture. The Notice of Default states that the Commission is in violation of certain covenants set forth in the Indenture and that such covenant defaults will become Events of Default if not cured within 30 days of the notice date. The Trustee gave notice that a covenant default has occurred and is continuing as a result of the failure of the Commission to comply with Section 12.5c of the Indenture that requires the review and adjustment of customer sewer rates and charges and implement a rate increase no later than January 1, 2009 to allow compliance with the Rate Covenant of the Indenture.

The Trustee further notified of the covenant default that occurred and is continuing as a result of failure to comply with the provisions of the Indenture to restore the Reserve Fund to the levels required under the Indenture. In addition, the covenant defaults discussed in the Notices dated October 15, 2008 and December 19, 2008 (discussed above) have continued and become an Event of Default under Section 13.1(c) of the Indenture when they were not cured within 30 days of the dates of those notices.

Events of Default under the Indenture have occurred and are continuing under Section 13.1(a) of the Indenture as a result of the failure of the Commission to make payment of approximately $158,885 in principal payments due on Warrants called for redemption on June 1, August 1 and October 1, 2008 and January 1, 2009 pursuant to the terms of the Indenture and certain Standby Warrant Purchase Agreements (discussed above) and under Section 13.1(b) of The Indenture as a result of the failure to comply with the Rate Covenant set forth in Section 12.5(b) of the Indenture.

NOTE J - WARRANTS PAYABLE - Continued

March 24, 2009 - The Trustee delivered a Notice of Default to the Commission dated March 24, 2009 that covenant defaults have occurred and are continuing as a result of the failure to comply with the provisions of Section 4.4 of the Third Supplemental Indenture requiring the repayment of draws under the Reserve Policy and related expenses incurred by the bond insurer (plus any accrued interest) and requiring that the Rate Covenant in the Indenture provide at least one time coverage of the Commission's obligations. These covenant defaults will become Events of Default if not cured within 30 days of the date of the Notice.

The Trustee further notified of the covenant default that occurred as a result of failure to comply with the provisions of the Indenture to restore the Reserve Fund to the levels required under Section 11.3 of the Indenture and to pay into the Reserve Fund monthly payments required by Section 11.11 of the Indenture as a result of the downgrade in the respective ratings of Syncora and FGIC. These covenant defaults will become Events of Default if not cured within 30 days of the date of the Notice.

February 3, 2010 - The Trustee delivered a Notice of Default to the Commission dated February 3, 2010 pursuant to Section 13.1c of the Indenture. The Trustee issued a demand for the Commission to cure its covenant defaults and the Events of Default which continue unabated. The Trustee notified the Commission of failure to comply with Sections 11.3 and 11.11 for failure to restore the Reserve Fund to the Reserve Fund Requirement; failure to comply with Section 12.2 and to furnish the audit within 180 days of year end; failure to comply with Section 12.5 to increase the rates and charges to comply with the Rate Covenant on January 1, 2010 and the continuation of other notices given on March 24, 2009, February 17, 2009, December 19, 2008, and October 15, 2008 (as discussed above and in Note V).

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Events Notices

February 28, 2008 - The February 28, 2008, Material Event Notice disclosed rating downgrades on the long-term ratings assigned to the Limited Obligation School Warrants, Series 2005-A and 2005-B insured by Ambac. The ratings assigned to warrants insured by Ambac were reduced from 'AAA' to 'AA' by Fitch. The rating downgrades were in conjunction with the reductions of the rating agencies' financial strength and financial enhancement ratings of Ambac.

NOTE J - WARRANTS PAYABLE - Continued

March 4, 2008 - The March 4, 2008, Material Event Notice disclosed rating downgrades on the long-term ratings assigned to the General Obligation Warrants, Series 2001-A warrants insured by Ambac. The ratings assigned to Warrants insured by Ambac were reduced from 'AAA' to 'AA' by Fitch. The rating downgrades were in conjunction with the reductions of the rating agencies' financial strength and financial enhancement ratings of Ambac.

March 11, 2008 - The March 11, 2008, Material Event Notice disclosed rating downgrades on the underlying ratings assigned to the General Obligation Fixed Rate Warrants insured by Ambac or by National (formerly known as MBIA). The ratings assigned to Fixed Rate Warrants were reduced from 'AA' to 'A' by S&P, and the split rating on Variable Rate Demand Warrants was reduced from 'AA/A-1+' to 'A/A-1.'

The March 11, 2008, Material Event Notice also disclosed rating downgrades on the underlying rating assigned to Limited Obligation School Warrants insured by Ambac. The rating assigned to the warrants was reduced from 'A+' to 'A' by S&P.

On March 11, 2008, a Material Event Notice was issued which disclosed rating downgrades on the underlying rating assigned to Lease Revenue Warrants, Series 2006 insured by Ambac. The rating assigned to the warrants was reduced from 'AAA' to 'AA' by Fitch in conjunction with the reductions of the rating agency's financial strength and financial enhancement rating. Also, the ratings assigned to the warrants by S&P was reduced from 'AA-' to 'A-.'

March 31, 2008 - The March 31, 2008, Material Event Notice disclosed rating downgrades on the underlying rating assigned to the General Obligation Warrants by Moody's which was reduced from 'Aa2' to 'Baa1,' rating downgrades on the long-term insured rating assigned to the Limited Obligation School Warrants insured by Ambac from 'A1' to 'Baa2' and rating downgrades on the long-term insured rating assigned to the Lease Revenue Warrants insured by Ambac from 'Aa3' to 'Baa2.'

June 9, 2008 - The June 9, 2008, Material Event Notice disclosed rating downgrades on the long-term insured rating assigned to the General Obligation Warrants, Limited Obligation School Warrants and Lease Revenue Warrants insured by Ambac or National (formerly known as MBIA) from 'AAA' to 'AA' in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement ratings of Ambac and National (formerly known as MBIA).

NOTE J - WARRANTS PAYABLE - Continued

June 30, 2008 - The June 30, 2008, Material Event Notice disclosed rating downgrades on the long-term insured rating assigned to the General Obligation Warrants, Limited Obligation School Warrants and Lease Revenue Warrants insured by Ambac or National (formerly known as MBIA) from 'Aaa' to 'Aa3' for Ambac and 'Aaa' to 'A2' for National (formerly known as MBIA) per Moody's in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement ratings of the companies.

August 1, 2008 - The August 1, 2008, Material Event Notice disclosed rating downgrades on the underlying rating assigned to the General Obligation Warrants by Moody's from 'Baa1' to 'Ba3' and by S&P from 'A/A-a' to 'BBB/A-3.'

In addition, the underlying rating assigned to the Limited Obligation School Warrants and Lease Revenue Warrants was reduced by Moody's from 'Baa2' to 'B1.' The underlying rating assigned to the Lease Revenue Warrants was also reduced by S&P from 'A-' to 'BBB-.'

September 8, 2008 - The September 8, 2008, Material Event Notice disclosed rating downgrades on the underlying rating assigned to the General Obligation Warrants by S&P from 'BBB' to 'B.' In addition, the underlying rating assigned to the Limited Obligation School Warrants by S&P was reduced from 'A' to 'BBB,' and the ratings assigned to the Lease Revenue Warrants by S&P was reduced from 'BBB-' to 'B-.'

September 22, 2008 - The September 22, 2008, Material Event Notice disclosed a Notice of Event of Default under the July 1, 2001, Trust Indenture with regards to General Obligation Warrants, Series 2001-B and the mandatory redemption on September 15, 2008. It also disclosed that the Commission entered into a Forbearance Agreement with regards to the Warrants that were due.

To provide funds for the payment of the purchase prices of the warrants that are subject to an optional or mandatory tender, the Commission entered into a Standby Warrant Purchase Agreement (Liquidity Facility) with JPMorgan Chase Bank and Bayerische Landesbank New York Branch, each Liquidity Providers. On March 13, 2008, pursuant to the agreement, the Liquidity Providers purchased Warrants in the aggregate principal amount of $118,740, and additional warrants have been subsequently purchased by the Liquidity Providers pursuant to the Liquidity Facility.

NOTE J - WARRANTS PAYABLE - Continued

Under the Liquidity Facility, the Commission is required to redeem the tendered Warrants in six equal semiannual installments beginning six months from the date of the tender of such Warrants which have not been remarketed prior to such redemption dates. The first redemption was to occur on September 15, 2008; however, the Commission did not redeem such Warrants resulting in the occurrence of an Event of Default under the Indenture of the Liquidity Facility.

The County entered into a Forbearance Agreement with regards to the Standby Warrant Purchase Agreements dated September 15, 2008, with each of the Liquidity Providers. The initial forbearance period expired on September 30, 2008.

September 29, 2008 - The September 29, 2008, Material Event Notices disclosed rating downgrades on the underlying rating assigned to the General Obligation Variable Rate Warrants by S&P from 'B' to 'D' and by Moody's from 'Ba3' to 'B3.' In addition, the underlying rating assigned to the Limited Obligation School Warrants by Moody's was reduced from 'B1' to 'B3,' and the underlying rating of the Lease Revenue Warrants was reduced from 'B1' to 'Caa1' by Moody's.

Notice of Event of Default - General Obligation Warrants, Series 2001-B
The holders of the Series 2001-B General Obligation Warrants have the right to tender such Warrants for purchase at par, plus accrued interest. In order to provide a source of funds for the payment of the purchase price of the Series 2001-B Warrants that are subject to an optional or mandatory tender, the Commission entered into Standby Warrant Purchase Agreements (the Series 2001-B Liquidity Facility) with two banks, each of which are a GO Liquidity Provider. The 2001-B General Obligation Warrant holders began tendering the Series 2001-B Warrants for purchase in March 2008. Subsequent to that date, substantially all of the $120,000 principal amount of the Series 2001-B Warrants were tendered to the GO Liquidity Providers, none of which has been subsequently remarketed as of such date.

The Series 2001-B Warrants tendered and held by the GO Liquidity Providers bear interest as provided in the Series 2001-B Liquidity Facility at the rate equal to the Liquidity Provider's prime rate plus one percent until the earlier of (a) the date they are remarketed and (b) the expiration date of the Series 2001-B Liquidity Facility and, thereafter, the rate equal to the Liquidity Provider's prime rate plus three percent. As of July 31, 2008, interest on the tendered warrants accrues at the default rate of interest.

NOTE J - WARRANTS PAYABLE - Continued

The Commission received a Notice of Event of Default on the Standby Warrant Purchase Agreement related to the General Obligation Warrants, Series 2001-B from JPMorgan Chase Bank dated September 15, 2008, under Sections 8.01(l) and 2.08(b) of the Standby Warrant Purchase Agreement, as a result of the failure of the Commission to make the principal installment payments due to each GO Liquidity Provider that were due on September 15, 2008.

As a result of the rating downgrades experienced on the General Obligation Warrants and the disruption in the financial markets, among other events, the interest rates for the General Obligation Warrants (Series 2001-B) (variable rates) increased significantly. As of September 30, 2008, the interest rate for the Variable Rate General Obligation Warrants (Series 2001-B) was 10 percent.

Pursuant to the agreements with the GO Liquidity Providers under the Standby Warrant Purchase Agreements, the Commission is required to redeem the tendered Series 2001-B Warrants in six equal semiannual installments beginning six months from the date of tender if such Warrants have not been remarketed prior to the redemption dates.

The first installment of the six semiannual installments was due on September 15, 2008. The Commission was unable to make the mandatory redemption. On September 15, 2008, the Commission entered into separate forbearance agreements with the GO Liquidity Providers to forbear the warrants that were due until September 30, 2008. The forbearance agreements, among other items, states that the GO Liquidity Providers will not exercise their rights under the agreement. The Forbearance Agreement was subsequently extended to March 12, 2009 (see Material Event Notices above or Note V and Liquidity Facility Forbearance Agreements discussion below). As a result of these events, $118,740 of the scheduled payments were accelerated such that $15,000 were due within one year subsequent to September 30, 2008 and $83,950 and $19,790 due in fiscal years 2010 and 2011, respectively with the remaining $1,260 of the $120,000 due between fiscal years 2019 and 2023. Subsequent to September 30, 2008, the Commission repaid $15,000 of the outstanding obligations due to the GO Liquidity Providers.

Liquidity Facility Forbearance Agreements

As a result of certain Notices of Events of Default which are described in the Material Event Notices and under the Notice of Event of Default section above, the Liquidity Providers were allowed to immediately terminate without notice or demand.

NOTE J - WARRANTS PAYABLE - Continued

On September 15, 2008 (as amended and extended), the Commission entered into a separate Forbearance Agreement and Reservation of Rights Agreements (Forbearance Agreements) with the Liquidity Providers (JPMorgan Chase Bank and Bayerische Landesbank, both as the Liquidity Providers and Liquidity Agent). The Forbearance Agreement generally provides that, during the forbearance period, the counterparties will forbear from exercising any rights or remedies that the Liquidity Provider has or may have, now or hereafter arising during the forbearance period. The forbearance period originally continued until September 30, 2008. On September 30, 2008, the forbearance period was continued until October 8, 2008.

The Commission subsequently entered into separate agreements with each party to extend the Forbearance Agreements to September 14, 2009, at which time all such agreements were terminated (Note V).

Covenant Violations and Notices of Default - Limited Obligation School Warrants
The Commission received notice of a covenant violation and potential event of default relating to the Limited Obligation School Warrants dated April 23, 2008 and March 30, 2009, from U.S. Bank related to the failure to provide a copy of an audit of the receipts and disbursements of the Education Tax Proceeds to the Trustee within 180 days following the close of each fiscal year of the Commission per Section 17.1(b) of the Trust Indenture. The Commission has responded to the Trustee and diligently pursued the appropriate corrective action. Subsequent to year end, the audits were completed and submitted to U.S. Bank in accordance with the agreement.

Pursuant to Section 17.1(b) of the Indenture, U.S. Bank (successor Trustee) provided a written Notice of Default dated December 28, 2009 to the Commission for the Limited Obligation School Warrants, Series 2004-A, 2005-A and B whereby notice was given that the Commission failed to satisfy all or a portion of the Reserve Fund Requirement set forth in Sections 14.3 and 14.8 of the Indenture. Section 14.3 of the Indenture states that the Reserve Fund Requirement may be satisfied, in whole or in part, by depositing with the Trustee a surety bond or insurance policy that satisfies the requirements specified in Section 14.8. Section 14.8 indicates that the 'claims paying ability' of the issuer of such bond or policy must be rated "AAA" by S&P or "Aaa" by Moody's. Section 14.8 further states that if the claims paying ability of the issuer falls below "A", then the Commission must either deposit a sufficient amount of funds into the Reserve Fund to meet the Reserve Fund Requirement (paid in equal monthly installments over the ensuing year) or replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements within 6 months.

NOTE J - WARRANTS PAYABLE - Continued

The Commission failed to deposit either form of funds as required by Section 14.8 of the Indenture. Furthermore, the failure to remedy the covenant default within the 30 day period subsequent to the Notice constitutes and Event of Default under Section 17.1(b) of the Indenture.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS

The Commission's asset/liability strategy is to have a mixture of fixed and variable rate debt. During fiscal years ending 2001 to 2003, the Commission decided to synthetically create fixed rate debt by entering into certain interest rate swap agreements that effectively changed the interest rates on certain warrants from variable rates to fixed rates.

The Commission subsequently entered into additional interest rate swap agreements and related swap option agreements (swaptions) in an effort to hedge more effectively interest costs on the warrants outstanding.

Terms

The interest rate swap agreements were executed with JPMorgan Chase Bank, Lehman Brothers Special Financing, Bear Stearns and Bank of America, NA, with notional amounts and terms of the agreements generally equal to the amount of the warrants outstanding as further discussed below. All information presented in this note is as of September 30, 2008; interest rates and terms may have changed subsequent to year end. See Note V for a discussion of events subsequent to year end.

The fair value of the interest rate swap agreements as of September 30, 2008, was estimated using the zero-coupon method, unless otherwise noted. This method involves computing and summing the present value of each future net settlement that would be required by the swap terms if future spot interest rates match the forward rates implied by the current yield curve. The discount rates used are the spot interest rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the interest rate swap agreement.

The fair value of the options was estimated using the Black, Derman and Toy (BDT) model. This model takes into consideration probabilities, volatilities, time and underlying prices.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Risks
At September 30, 2008, the Commission is not exposed to significant counterparty credit risk because each of the total interest rate swap portfolios documented under each of the respective International Swap Dealers Association (ISDA) Master Agreements with JPMorgan Chase Bank, Lehman Brothers Special Financing, Bear Stearns and Bank of America, NA had a net negative fair value.

If the total interest rate swap portfolio's fair value, documented under an ISDA Master Agreement, becomes positive at some point in the future. Alabama law requires the counterparty to post collateral against the total interest rate swap portfolio's fair value with a threshold of zero.

The interest rate swap agreements use the ISDA Master Agreement, which includes standard termination events. Each of the Schedules to the Master Agreement includes an "additional termination event." Under this provision, the interest rate swap agreements may be terminated if the long-term sewer revenue indebtedness of the Commission is rated lower than 'BBB' by Standard & Poor's, a division of The McGraw-Hill Companies (S&P), or lower than 'Baa2' by Moody's Investor's Service, Inc. (Moody's), and the Commission has not, within 10 days, either (a) executed and delivered a collateral agreement satisfactory in form and substance to the counterparty providing for the collateralization of the Commission's obligations under the swaps or (b) obtained an insurance policy satisfactory in form and substance to the counterparty by a financial insurer satisfactory to the counterparties insuring the prompt and timely performance of the Commission's obligations under the related agreement.

Furthermore, the interest rate swap agreements may be terminated if the long-term sewer revenue indebtedness of the Commission is rated lower than 'BBB-' by S&P or lower than 'Baa3' by Moody's, and the Commission has not, within 10 days, obtained an insurance policy satisfactory in form and substance to the counterparty by a substitute credit enhancer insuring the prompt and timely performance of the Commission's obligations hereunder.

The interest rate swap agreements expose the Commission to basis risk should the relationship between the London Interbank Offered Rate (LIBOR) and the interest rates on the variable rate warrants diverge.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Valuation

The interest rate swap agreements have a fair value associated with each agreement, based on the original terms of the agreements and the relationship to interest rates in the current market. The associated fair value is reported below for each interest rate swap agreement.

However, as discussed in Note A to the financial statements, the Environmental Services Department is an enterprise fund and has the option of following private sector guidance for their enterprise funds subsequent to December 1, 1989, if such standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The Commission has not elected to follow subsequent private-sector guidance. As a result, the fair values reported below for the interest rate swap agreements are not recorded in these financial statements.

As discussed further in Note W to these financial statements, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments,* in June 2008, which is effective for the Commission beginning with the fiscal year ending September 30, 2010. GASB Statement No. 53 requires the fair values of such derivative instruments (discussed in this section) to be reported in the financial statements of state and local governments.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Following is a summary of interest rate swap agreements outstanding at September 30. 2008 (all amounts reported in thousands):

Issue	Notional Amount at September 30, 2008	Transaction Date	Maturity Date	Type
Business-Type Activities				
Series 2002-A Warrants:				
JPMorgan Chase Bank	$ 110,000	9/18/2001	2/1/2042	Swap
Bear Stearns	110,000	6/10/2004	2/1/2042	Suppl Swap
Series 2002-C Warrants:				
JPMorgan Chase Bank	537,711	10/23/2002	2/1/2040	Swap
Lehman Brothers Special Financing	189,443	10/23/2002	2/1/2040	Swap
Bear Stearns	824,700	6/10/2004	2/1/2040	Suppl Swap
Series 2003-B Warrants:				
JPMorgan Chase Bank	1,035,800	3/28/2003	2/1/2042	Swap
Bear Stearns	633,078	6/10/2004	2/1/2042	Suppl Swap
Series 2003-C Warrants:				
JPMorgan Chase Bank	789,019	7/14/2003	2/1/2042	Swap
Series 1997-A, 2001-A, 2002-C:				
JPMorgan Chase Bank	200,000	1/10/2001	1/1/2016	Swaption
Series 1997-A, 2002-C, 2003-B:				
JPMorgan Chase Bank	175,000	1/10/2001	1/1/2016	Swaption
	$ 4,604,751			

Material Event Notices

The Commission had certain events during fiscal 2008 that required additional disclosures and were included in Material Event Notices filed by the Commission. The Material Event Notices are disclosed in Notes J and V and include numerous events that effect the interest rate swap agreements.

Subsequent Events

Certain events occurred subsequent to year end in connection with the interest rate swap agreements that triggered an additional termination event for each of the interest rate swap agreements. The additional termination events give the counterparty to each agreement the right for early termination of the interest rate swap agreements.

As a result of the additional termination events and related developments affecting the warrants, the Commission entered into separate Forbearance Agreements with each of the counterparties, and payments on the interest rate swap transactions were suspended.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

In addition, as a result of the above events, the Commission received Early Termination Notices from three of the counterparties (JPMorgan Chase Bank, Lehman Brothers Special Financing, Inc. and Bear Stearns) which have resulted in termination payments due to the counterparty to the agreement. See Note V for discussion of subsequent events related to the Interest Rate Swap Agreement Termination Events and a discussion of the terms of the Swap Forbearance Agreements.

There were four interest rate swap agreements that were terminated during 2008 for the Business-Type Activities. The $111,825 interest rate swaption agreement with JPMorgan Chase Bank was cancelled effective February 1, 2008. In addition, the $110,000, $374,847 and $263,006 supplemental swap agreements with Bank of America, NA were terminated July 15, 2008, under the termination options included in the interest rate swap agreements.

There was one interest rate swap agreement that was terminated during 2008 for the Governmental Activities. The $120,000 interest rate swap agreement with JPMorgan Chase Bank was cancelled effective September 4, 2008.

See the section entitled "Interest Rate Swap Agreements Termination Events" within this note for further disclosures regarding the termination of the interest rate swap agreements.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Series 2002-A Sewer Revenue Warrants

The Commission entered into an interest rate swap agreement in connection with its $110,000 variable rate revenue warrants in September 2001 to effectively change the Commission's interest rate on the warrants to a fixed rate. The swap agreement with JPMorgan Chase Bank had an effective date of February 16, 2002, and terminates on February 1, 2042.

Under the interest rate swap agreement, the Commission makes payments based on a fixed rate of 5.06 percent and receives payments computed on the variable BMA Municipal Swap Index (SIFMA Swap Index). The interest rate swap agreement has a notional amount of $110,000. The warrants' variable interest rates are not based on an index but on market conditions.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The table below reflects the synthetic interest rate on these warrants as of September 30. 2008:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	5.0600%
Variable payment from counterparty	BMA	1.7204%
Net interest rate swap payments		3.3396%
Variable-rate warrant payments		6.0800%
Synthetic interest rate on warrants		9.4196%

Fair Value

As of September 30, 2008, the interest rate swap agreement had a negative fair value of $19,434. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

Series 2002-C Sewer Refunding Warrants

In October 2002, the Commission entered into three interest rate swap agreements to effectively change the Commission's interest rate on the Series 2002-C warrants to a fixed rate.

The interest rate swap agreements were executed with JPMorgan Chase Bank, Lehman Brothers Special Financing and Bank of America, NA, with original notional amounts of $539,446, $190,054 and $110,000, respectively. The Bank of America swap agreement was terminated on July 15, 2008.

The interest rate swap agreements had effective dates of October 23, 2002, and terminate on February 1, 2040. Under the interest rate swap agreements, the Commission makes payments based on a fixed rate of 3.92 percent and receives variable payments computed on the basis of 67 percent of the one-month LIBOR. The interest rate swap agreements have a combined original notional amount of $729,500.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The interest rate swap agreements amortize with the related warrant agreements and had remaining notional balances at September 30, 2008, of $537,711, $188,809 and $109,279, respectively. The warrants' variable interest rates are not based on an index but on market conditions. The table below reflects the synthetic interest rate on these warrants as of September 30, 2008:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.9200%
Variable payment from counterparty	67% of LIBOR	1.6654%
Net interest rate swap payments		2.2546%
Variable-rate warrant payments		7.5900%
Synthetic interest rate on warrants		9.8446%

Fair Value
As of September 30, 2008, the interest rate swap agreements had a negative fair value of $61,834, $21,785 and $11,941, respectively. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreements was estimated as negative fair values of $61,834 and $21,785, respectively, using the zero-coupon method and as a negative fair value of $11,941 using the Market Quotation Method.

Series 2003-B1-B7 Sewer Refunding Warrants
In March 2003, the Commission entered into an interest rate swap agreement to effectively change the Commission's interest rate on the Series 2003-B warrants from a variable rate to a fixed rate. The interest rate swap agreement was executed with JPMorgan Chase Bank. The interest rate swap agreement had an effective date of March 28, 2003, and it terminates on February 1, 2042. Under the swap agreement, the Commission makes payments based on a fixed rate of 3.678 percent and receives variable payments computed on the basis of 67 percent of the one-month LIBOR. The interest rate swap agreement has a notional amount of $1,035,800. The warrants' variable interest rates are not based on an index but on market conditions.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The table below reflects the synthetic interest rate on these warrants as of September 30, 2008:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.6780%
Variable payment from counterparty	67% of LIBOR	1.6654%
Net interest rate swap payments		2.0126%
Variable-rate warrant payments		7.7900%
Synthetic interest rate on warrants		9.8026%

Fair Value
As of September 30, 2008, the interest rate swap agreement had a negative fair value of $83,194. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

Series 2003-C Sewer Refunding Warrants
In July 2003, the Commission entered into two interest rate swap agreements to effectively change the Commission's interest rate on the Series 2003-C warrants to a fixed rate. The interest rate swap agreements were executed with JPMorgan Chase Bank and Bank of America, NA, with notional amounts of $789,019 and $263,006, respectively. The interest rate swap agreements had an effective date of July 14, 2003, and terminate on February 1, 2042. Bank of America terminated the swap agreement on July 15, 2008.

Under the interest rate swap agreement, the Commission makes payments based on a fixed rate of 3.596 percent and receives variable rate payments computed on the basis of 67 percent of the one-month LIBOR. The outstanding interest rate swap agreement with JPMorgan Bank Chase has a notional amount of $789,019. The warrants' variable interest rates are not based on an index but on market conditions.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The table below reflects the synthetic interest rate on these warrants as of September 30, 2008:

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.5960%
Variable payment from counterparty	67% of LIBOR	1.6654%
Net interest rate swap payments		1.9306%
Variable-rate warrant payments		6.6200%
Synthetic interest rate on warrants		8.5506%

Fair Value

As of September 30, 2008, the interest rate swap agreements had a negative fair value of $56,603 and $16,868, respectively. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The estimated negative fair value of $56.603 of the interest rate swap agreement was estimated using the zero-coupon method. The estimated negative fair value of $16,868 of the interest rate swap agreement was based on the Market Quotation Method (termination payment amounts referenced in the counterparties' termination notices plus accrued interest).

Various Amounts of the Series 1997-A, 2001-A, 2002-C Sewer Revenue Warrants

In January 2001, the Commission entered into a fixed-to-variable interest rate swap agreement for $200,000 of various outstanding warrants. In May 2001, the Commission executed a short-term interim reversal of this swap agreement to lock in a positive spread of 1.52 percent per year until February 2004.

Terms

The interest rate swap agreement was executed with JPMorgan Chase Bank. Under the swap agreement and short-term interim reversal, the Commission received a fixed payment of 1.52 percent per year until January 10, 2001. The notional amount of the interest rate swap agreement is $200,000 and terminates on January 1, 2016.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The interim reversal expired on February 1, 2004, and JPMorgan Chase Bank executed its option to cancel the swap on February 1, 2004. JPMorgan Chase Bank maintains the option to reinstate the swap agreement on or after February 1, 2009. JPMorgan did not reinstate the agreement and cancelled all outstanding swap agreements and the related swaptions on March 3, 2009.

Fair Value
As of September 30, 2008, the swaption had a negative fair value of $1,745. The fair value of the option was estimated using the BDT model. This model takes into consideration probabilities, volatilities, time and underlying prices.

The Commission has contingent variable rate exposure to the extent that on or after February 1, 2009, the counterparty will exercise its option to reinstate the swap.

Various Amounts of the Series 2002-A, 2002-C, 2003-B-8 Sewer Revenue Warrants
In January 2001, the Commission entered into a fixed-to-variable interest rate swap agreement for $175,000 of various outstanding warrants to become effective in February 2002. In May 2001, the Commission executed a short-term interim reversal of this swap agreement to become effective on February 1, 2002, to lock in a positive spread of 1.455 percent per year until February 1, 2004. The swap agreement was executed with JPMorgan Chase Bank.

Under the interest rate swap agreement and short-term interim reversal, the Commission received a fixed payment of 1.455 percent per year until February 1, 2004. The notional amount of the interest rate swap agreement is $175,000, and it terminates on January 1, 2016. The interim reversal expired on February 1, 2004, and JPMorgan Chase Bank executed its option to cancel this swap agreement on February 1, 2004. JPMorgan Chase Bank maintains the option to reinstate the agreement on or after February 1, 2009. JPMorgan did not reinstate the agreement and cancelled all outstanding swap agreements and the related swaptions on March 3, 2009.

Fair Value
As of September 30, 2008, the swaption had a negative fair value of $1,362. The fair value of the option was estimated using the BDT model. This model takes into consideration probabilities, volatilities, time and underlying prices.

The Commission has contingent variable rate exposure to the extent that on or after February 1, 2009, the counterparty will exercise its option to reinstate the swap.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Various Amounts of the Series 1997-A, 2001-A, 2003-A Sewer Revenue Warrants
In November 2003, the Commission entered into a fixed-to-variable interest rate swap agreement tied to various amounts of warrants for an original notional amount of $111,825. The interest rate swap agreement was effective May 1, 2004, and was executed with JPMorgan Chase Bank. On February 1, 2008, JPMorgan Chase Bank exercised its cancellation option and the interest rate swap agreement was terminated with no amount owed or received by the Commission.

Restructuring of Series 2002-A, 2002-C and 2003-B Swaps
In an effort to manage potential negative carry or basis loss between the floating rates on the Commission's existing variable rate or auction warrants and the index used on the interest rate swap agreements, the Commission restructured certain swap agreements in June 2004 to create an index that better correlates year to year from 67 percent of one-month LIBOR to 56 percent of one-month LIBOR plus a fixed spread of 49 basis points. The Commission executed the Eleventh Supplemental Indenture to make certain revisions required to undertake and complete the supplemental swap transactions.

The supplemental swap agreements were executed with Bear Stearns Capital Markets Inc. in the notional amounts of $110,000, $824,700 and $633,078 and with Bank of America, NA in the notional amount of $379,847 for a combined notional amount of $1,947,625.

The Series 2002-A supplemental swap agreement with a notional amount of $110,000 had a trade date of June 10, 2004, is effective on June 24, 2004, and terminates on February 1, 2042. The Series 2002-C supplemental swap agreement with a notional amount of $824,700 has a trade date of June 10, 2004, with an effective date of February 1, 2011, and terminates on February 1, 2040. The Series 2003-B supplemental swap agreement, with a total notional amount of $633,078 and $379,847, respectively, for a combined notional amount of $1,012,925, had a trade date of June 10, 2004, with an effective date of August 1, 2012, and terminates on February 1, 2042. The total combined notional amount was $1,947,625.

The Commission received upfront payments in June 2004 with the supplemental swap agreements of $11,088 for the Series 2002-A Warrants, $7,000 for the Series 2002-C Warrants and $4,625 for the Series 2003-B Warrants. The Commission established Supplemental Transactions Initial Payment Funds accounts with the Trustee for each warrant series in accordance with the Indenture. These funds are restricted to sewer system capital improvements.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The Commission's floating components of the swaps are equal to the BMA index on the Series 2002-A swap and 67 percent of one-month LIBOR on the Series 2002-C and Series 2003-B swaps. The counterparties' floating components of the swaps are equal to 56 percent of one-month LIBOR plus a fixed spread of 0.49 percent.

The counterparties' floating components were structured to historically match the BMA index, and the remaining spread was paid as the upfront payment to the Commission.

Fair Value

As of September 30, 2008, the swap agreements had a negative fair value of $16,776, $3,452, $2,635 and $2,576 for a total combined negative fair value of $25,439. The fair value of the interest rate swap agreements resulted in negative fair value and was estimated using the Market Quotation Method (termination payment notice plus accrued interest) for the $2,576 interest rate swap agreement and using the zero-coupon method for the remaining interest rate swap agreements.

Risks

The interest rate swap agreements expose the Commission to basis risk should the relationship between LIBOR and the rate on the warrants deviate from the original expectations.

Swap Forbearance Agreements

As a result of the Additional Termination Event which occurred on March 7, 2008 (see Interest Rate Swap Agreements Termination Events above), the Commission entered into a separate Forbearance Agreement and Reservation of Rights (collectively, the Swap Forbearance Agreements) dated March 31, 2008, with each of the counterparties.

The Swap Forbearance Agreements provide generally that during the forbearance period (a) the swap transactions will continue in full force and effect and (b) the counterparties will not exercise any rights or remedies. Each Swap Forbearance Agreement further provides that the Commission and the counterparty will not make any payments or other transfers of property to the other that would otherwise be due and payable during the forbearance period, but any such payments or transfers will be due on the second business day following the end of the forbearance period.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The initial swap forbearance period expired on April 15, 2008, and had been extended to July 31, 2009, subject to certain conditions (except the Lehman Brothers Special Financing, Inc. agreement, which expired on November 17, 2008, and the Bank of America agreement, which expired on June 30, 2009).

Under the Swap Forbearance Agreements, the counterparties have the right to terminate the swap transactions, but the termination payments will not be due until the date described above.

Interest Rate Swap Agreements Termination Events
In connection with the issuance of the Sewer Revenue Warrants, the Commission entered into 13 separate interest rate swap transactions with Bank of America, NA, Bear Stearns Capital Markets Inc., JPMorgan Chase Bank and Lehman Brothers Special Financing, Inc. outstanding in an aggregate notional amount of approximately $4.7 billion as of September 30, 2008.

The Commission's obligations to the counterparties under the ISDA Master Agreements and related schedules and annexes (collectively, the Swap Agreements) that govern such transactions are secured by a pledge of the net sewer revenues of the Commission that is on a parity with the pledge of such net revenues for the benefit of the Sewer Revenue Warrants, except with respect to swap termination payments, which are secured by a subordinate pledge.

Each Swap Agreement provides that a downgrade of the Commission's underlying ratings on the Sewer Revenue Warrants below 'BBB' by S&P or below 'Baa2' by Moody's constitutes an Additional Termination Event unless the Commission had within 10 days of the date of the downgrade (a) executed and delivered a collateral agreement satisfactory to the counterparty providing for the collateralization of the Commission's obligations under such Swap Agreement or (b) obtained an insurance policy by a financial insurer satisfactory to the counterparty insuring the prompt and timely performance of the Commission's obligations under such Swap Agreement.

Due to the downgrades of the Commission's underlying ratings on the Sewer Revenue Warrants (as discussed above in the Material Events Notices section), along with the failure to post collateral or provide insurance, an Additional Termination Event for each of the 13 Swap Agreements occurred on March 7, 2008.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

With the occurrence of the Additional Termination Events, each counterparty now has the right, exercisable at its discretion, to terminate its swap transactions upon notice to the Commission. If the counterparties choose to exercise their rights to terminate, the Commission would be obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreements.

The Commission received a notice from Bank of America, N.A. dated July 14, 2008 (amended July 15, 2008), designating July 15, 2008, as the Early Termination Date under the interest rate swap agreements, with regards to each of the interest rate swap transactions between Bank of America, N.A. and the Commission. The termination event resulted in $31,189 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to Bank of America.

The Commission received a notice from Lehman Brothers Special Financing, Inc. dated December 12, 2008, designating December 15, 2008, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between Lehman Brothers Special Financing, Inc. and the Commission. The termination event resulted in $68,568 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to Lehman Brothers Special Financing, Inc.

The Commission received a notice from Bear Stearns dated March 2, 2009, designating March 3, 2009, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between Bear Stearns and the Commission.

The termination event resulted in $9,061 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to Bear Stearns.

The Commission received a notice from JPMorgan Chase Bank dated March 2, 2009, designating March 3, 2009, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between JPMorgan Chase Bank and the Commission. The termination event resulted in $647,804 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to JPMorgan Chase Bank. JPMorgan Chase Bank waived the termination fees on November 4, 2009, as part of a legal settlement with the Securities and Exchange Commission (SEC) and the Commission.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The Commission has not made any periodic payments with regards to any of the interest rate swap agreements or the swap termination fees. However, termination events that occurred prior to September 30, 2008 resulted in approximately $31 million being owed and recorded as of September 30, 2008 in these financial statements.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants, Series 2001-B
The Commission entered into an interest rate swap agreement in connection with its $120,000 variable rate revenue warrants in April 2001 to effectively change the Commission's interest rate on the warrants to a fixed rate. The interest rate swap agreement was executed with JPMorgan Chase Bank on April 17, 2001, and was to terminate on April 1, 2011.

The Commission's obligations to the counterparties under the ISDA Master Agreements and related schedules and annexes (collectively, the Swap Agreements) govern such transactions. The Swap Agreement provides that a downgrade of the Commission's underlying ratings on the Sewer Revenue Warrants below 'BBB' by S&P or below 'Baa2' by Moody's constitutes an Additional Termination Event unless the Commission had within 10 days of the date of the downgrade (a) executed and delivered a collateral agreement satisfactory to the counterparty providing for the collateralization of the Commission's obligations under such Swap Agreement or (b) obtained an insurance policy by a financial insurer satisfactory to the counterparty insuring the prompt and timely performance of the Commission's obligations under such Swap Agreement.

Due to the downgrades of the Commission's underlying ratings on the Sewer Revenue Warrants (as discussed above in the Material Events Notices section), along with the failure to post collateral or provide insurance, an Additional Termination Event on the Swap Agreements occurred during March 2008.

With the occurrence of the Additional Termination Events, each counterparty now has the right, exercisable at its discretion, to terminate its swap transactions upon notice to the Commission. If the counterparties choose to exercise their rights to terminate, the Commission would be obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreements. The termination of the interest rate swap agreement may result in an additional termination payment that would be due to the counterparty.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The Commission received a notice from JPMorgan Chase Bank dated August 27, 2008, designating September 4, 2008, as the Early Termination Date under the 2001 Warrant - Series B General Obligation Warrants Interest Rate Swap Agreement, with regards to each of the interest rate swap transactions between JPMorgan Chase Bank and the Commission. The termination event resulted in $7,894 of termination fees due to JPMorgan Chase Bank. These termination fees were not part of the SEC legal settlement mentioned above and are still outstanding as of September 30, 2008, and accrued in these financial statements. A September 5, 2008, notice stated that after applying the Market Quotation Method, as provided for in the swap agreement, the Commission owed JPMorgan Chase Bank a termination amount of $8,086. This amount was adjusted for unpaid amounts owed to the Commission of $192, to arrive at the payment notice amount of $7,894. Accrued interest of $17 was added to determine the negative fair value of $7,910 or what the Commission owed to JPMorgan as of September 30, 2008.

Estimated Net Swap Payments (Reductions)
As a result of the termination of the interest rate swap agreements, as disclosed above, the following amounts represent termination payments that are owed (due from) the counterparties (in thousands):

Swap in Connection to Warrant Payable	Counterparty	Future Payments (Receipts)
Government-Type Activities		
2001 Warrant - Series B	JPMorgan Chase Bank	$ 7,894
Business-Type Activities		
2002 Warrant - Series B	Bank of America, N.A.	11,866
2003 Warrant - Series B	Bank of America, N.A.	2,560
2003 Warrant - Series C	Bank of America, N.A.	16,763
2002 Warrant - Series A	Bear Stearns	25,835
2002 Warrant - Series C	Bear Stearns	(10,524)
2003 Warrant - Series B	Bear Stearns	(6,250)
2002 Warrant - Series C	Lehman Brothers	68,568
		108,818
		$ 116,712

NOTE L - 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 with the Commission 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, 2008, the principal amount outstanding was $32,545,000.

NOTE M - DEFINED BENEFIT PENSION PLAN

Plan Description

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

The Plan's financial statements are publicly available in the annual report of the General Retirement System for Employees of Jefferson County, Alabama for the year ended September 30, 2008. The report may be reviewed at the Jefferson County Courthouse, Room 430, Birmingham, Alabama.

Funding Policy

Employees of the Commission are required by statute to contribute six percent of their gross salary to the Retirement System. The Commission is required to contribute amounts equal to participant contributions. The Plan also receives from the Commission a percentage of the proceeds from the sale of pistol permits.

NOTE M - DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Cost

For the year ended September 30, 2008, the Commission's annual pension contribution of $9,860,000 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, 2008, 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 funding excess is being amortized as a level percentage of projected payroll on an open basis. The remaining amortization period as of October 1, 2008, was 14 years.

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

Fiscal Year Ending	Annual Pension Cost (APC) (in Thousands)	Percentage of APC Contributed	Net Pension Obligation
09/30/08	$ 9,860	100%	$ -
09/30/07	9,276	100%	-
09/30/06 (unaudited)	23,445*	100%	-

* - Includes contributions required due to service buyback provisions of Act 2003-343.

Schedule of Funding Progress

The schedule of funding progress presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. For the year ended September 30, 2008, the schedule of funding progress and related information for the Commission is as follows:

(in Thousands)

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll [(b-a)/c]
09/30/08	$ 975,859	$ 875,695	$ (100,164)	111.44%	$ 163,182	(61.38%)
09/30/07	948,748	834,715	(114,033)	113.70%	158,673	(71.90%)
09/30/06 (unaudited)	869,689	755,661	(114,028)	115.10%	153,115	(74.50%)

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS)

In addition to the pension benefits described in Note M, the Commission provides postemployment health care benefits in accordance with a resolution approved by the Commission on September 25, 1990, to employees who meet the following eligibility requirements. Employees must: (a) have been covered by the Commission group health care plan at the time of retirement, (b) immediately upon retirement begin receiving a retirement pension under the rules and regulations of the General Retirement System for the Employees of Jefferson County, Alabama, and the amount of the pension must be sufficient to cover the required retiree contributions, (c) be under 65 years of age and (d) 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 semiannual premium for the retiree contributions.

Dependents can be covered under an eligible retiree's family plan if the dependents: (a) meet the definition of who can be covered in each option's contract, (b) are under 65 years of age and (c) 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, Alabama until they reach age 65 or become eligible for Medicare.

Benefits are funded on a pay-as-you-go basis.

Currently 521 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 $48 to $1,151 per month, and total insurance premiums range from $416 to $1,201. Benefits are funded on a pay-as-you-go basis. Expenditures for postretirement health care benefits are made and recognized as premiums are paid. During the year, costs of $5,949,597 were recognized for postretirement health benefits.

The information required to compute the estimated liability and prepare applicable disclosures as required by GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other than Pensions*, was unavailable as of the date of this report.

NOTE O - COUNTY APPROPRIATION AGREEMENT

On January 15, 1989, the Birmingham-Jefferson Civic Center Authority (the Authority) issued $132,380,000 in Capital Outlay Special Tax Bonds, Series 1989. The bonds are limited obligations of the Authority, payable solely out of certain tax proceeds to be received by the Authority pursuant to two separate Pledge and Appropriation Agreements executed on February 15, 1989, between the City of Birmingham and the Authority and the Commission and the Authority.

The Commission levies a special privilege or license tax (the County Special 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 Pledge and Appropriation Agreement (the Agreement), the Commission agreed to pay the Authority, from proceeds of the County Special Tax, $10,000,000 collected in each year, payable semiannually in June and December. The final payment under the Agreement was made in December 2008. See Note S regarding litigation related to the County Special Tax.

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY

The Jefferson County Economic and Industrial Development Authority (the Development Authority) is considered a blended component unit of the Commission. The financial position and results of operations of the Development Authority have been included in the accompanying financial statements as a nonmajor enterprise fund with any significant interfund activity being eliminated. At September 30, 2008, the Development Authority was indebted to the Commission in the amount of $19,243,000, which is presented as advances due to other funds in the accompanying statement of net assets. This amount is eliminated in the government-wide statement of net assets.

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY - Continued

Warrants Payable

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2008:

	(in Thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
Warrant issue - 2004 series	$ 7,100	$ -	$ 1,245	$ 5,855
Less amount due in one year				1,285
				$ 4,570

Warrants payable are comprised of the following at September 30, 2008 (in thousands):

Industrial Park Revenue Bonds, Series 2004, with interest paid semiannually at fixed rates ranging from 1.48% to 3.90% and annual principal payments ranging from $415 to $1,435 through March 1, 2013 (less unamortized discount of $22 and deferred loss on refunding of $166)	$ 5,667
Less amount due in one year, net	1,251
Warrants payable - noncurrent, net	$ 4,416

The maturities of long-term obligations are as follows at September 30 (in thousands):

	Principal	Interest	Total
2009	$ 1,285	$ 200	$ 1,485
2010	1,330	155	1,485
2011	1,390	103	1,493
2012	1,435	61	1,496
2013	415	15	430
	$ 5,855	$ 534	$ 6,389

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY - Continued

As of September 30, 2008, the amount recorded for deferred charges - issuance costs was $165,000.

Defeased Debt

On February 2, 2004, the Development Authority issued $10,650,000 of Industrial Park Revenue Bonds of which $10,650,000 was placed in an irrevocable trust for the purpose of generating resources for all future debt service payments through 2013 ($11,465,000 principal) of the 1998 bonds. As a result, the refunded bonds are considered to be defeased, and the liability has been removed. This advanced refunding undertaken decreased total debt service payments over the next 10 years by a cash benefit of approximately $2,862,117 and obtained an estimated economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately $2,455,400. As of September 30, 2008, $7,655,000 of bonds are considered defeased and outstanding.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS

Advances to/from Other Funds

The amounts of advances to/from other funds at September 30, 2008, were as follows:

	Advances from Other Funds (in Thousands)			
	Limited Obligation School Fund	Cooper Green Hospital Fund	Nonmajor Proprietary Funds	Totals
Advances to other funds:				
General Fund	$ 1,617	$ 1,726	$ 19,243	$ 22,586

Advances to/from other funds are generally for one of the following reasons: (a) amounts loaned from one fund to another to finance daily operations and are expected to be received within one year, or (b) amounts loaned from one fund to another from the refinancing of general obligation warrants in previous years or for the purchase of investment property and are not expected to be repaid within one year.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS - Continued

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2008, were as follows:

	Transfers in (in Thousands)					
	General Fund	Indigent Care Fund	Cooper Green Hospital Fund	Nonmajor Governmental Funds	Nonmajor Proprietary Funds	Totals
Transfers out:						
General Fund	$ -	$ -	$ 117	$ 3,452	$ 4,228	$ 7,797
Indigent Care Fund	-	-	44,776	-	-	44,776
Cooper Green Hospital	-	249	-	80	-	329
Nonmajor Governmental Funds	20,860	-	4,432	37,865	752	63,909
Nonmajor Proprietary Funds	1,843	-	-	-	-	1,843
	$ 22,703	$ 249	$ 49,325	$ 41,397	$ 4,980	$ 118,654

The Commission typically uses transfers to fund ongoing operating subsidies, to service the portion of current-year debt requirements and to provide for hospital operations.

NOTE R - JOINTLY GOVERNED ORGANIZATION

The Jefferson County Commission, along with numerous municipalities and other counties, participates in the Storm Water Management Authority, Inc. (the Storm Water 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 Storm Water Authority. However, the Commission has entered into an agreement to act in a custodial capacity relating to receipts and disbursements of funds for the Storm Water Authority.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION

Edwards v. Jefferson County, Case number CV 07-900873, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, on May 11, 2007. This case contests the Commission's ability to levy occupational taxes and claimed that such occupational taxes and certain business license fees paid since 2000 should be refunded to taxpayers.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

On January 12, 2009, a Circuit Court ruling on the case was issued indicating that the occupational taxes and business license fees were effectively repealed in prior years. The ruling did not call for retroactive refunding of such occupational taxes and business license fees collected. The Commission was allowed to continue to collect such taxes and fees during its appeal process but was instructed to maintain the newly collected funds in an interest-bearing escrow account and not expend them. Such funding comprised a significant component of General Fund revenues each year ($76,832,000 for the year ended September 30, 2008). The Alabama Supreme Court affirmed the Circuit Court's ruling, and, as a result, the Commission was required to refund the escrowed funds that were collected from January 12, 2009 through August 13, 2009.

While the occupational tax case was being appealed, on August 14, 2009, the Alabama legislature enacted Act 2009-811 which reauthorized the Commission to retroactively and prospectively collect occupational and business license tax. In a subsequent appeal, the Alabama Supreme Court indicated that the escrow funds needed to be returned to taxpayers, but recognized that, under the new legislation, the Commission could levy and collect the new tax for the period covered under escrow. Following the second appeal, the Commission participated in court-ordered mediation with the Plaintiffs and reached a tentative settlement by which a portion of the escrowed taxes will be refunded to taxpayers and a portion will be returned to the Commission. This settlement has been negotiated but has not been approved by the trial court. Based on the potential settlement, the Commission will be required to pay at least $30,000,000 from the escrowed funds. Approximately $1,100,000 in administrative costs has been paid from the general fund. These amounts are related to tax revenues and collections occurring in fiscal year 2009 and, therefore, no accrual is recorded at September 30, 2008.

Weissman v. Jefferson County, Case number CV-09-904022 was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, in December 2009. This case is a certified class action on behalf of occupational and business license taxpayers who paid such taxes pursuant to Alabama Act 2009-811. On December 1, 2010, the trial court granted summary judgment for the Plaintiffs and enjoined the Commission from collecting any tax under authority of this Act but did not order the Commission to refund amounts already collected. On December 7, 2010, the Commission appealed the trial court order to the Alabama Supreme Court. On December 14, 2010, the Circuit Court granted the Commission's motion to continue to assess and collect taxes under Alabama Act 2009-811, but ordered the Commission to maintain the newly collected funds in an interest-bearing escrow account and not expend them. There is no impact on the accompanying financial statements as of September 30, 2008.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Wilson v. Bank of America, et al, Case number CV-2008-901907.00 was filed on June 16, 2008 in the Circuit Court of Jefferson County, Alabama, Birmingham Division. Plaintiffs, representatives of a putative class, allege that Jefferson County's sewer rates are unconstitutionally high, that the Indenture pursuant to which the Commission issued sewer warrants is invalid and that the chapter of the Alabama Code that authorized the issuance of the Commission's sewer warrants is invalid. Plaintiffs have sued several banks and individuals in addition to the Commission. The Commission, along with numerous other parties, has moved to dismiss the action. The Court held a hearing on November 22, 2010, after which the Court denied all pending motions to dismiss. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Bank of New York Mellon as Trustee v. Jefferson County, et al, Case number 2:08-CV-1703-RDP was filed on September 16, 2008 in the United States District Court for the Northern District of Alabama, Southern Division. This case is stayed. It is a federal companion case to the state-court receivership case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Bank of New York Mellon as Trustee v. Jefferson County, et al, Case number CV-09-2318 was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division. This action is still pending but is inactive. The case was filed on August 3, 2009. The claims are alleged to be based, at least in part, on events that took place before September 30, 2008. On September 22, 2010, the Plaintiff obtained the appointment of John S. Young, Jr. as Receiver over the County's sewer system. A money judgment was also entered against the Commission in the amount of the sewer warrants currently due or past due. The recourse for that money judgment is limited to the net revenues of the sewer system. The remaining claims in this case are for mandamus to the Commission and for an accounting of the sewer system revenues. The Commission will comply with the instruction of the trial court. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Jefferson County, Alabama v. JPMorgan, et al, Case number CV-2009-903641.00 was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division. The Commission brought suit against JPMorgan Securities, Inc.; JPMorgan Chase Bank National Association; Blount Parrish & Company; Charles LeCroy; Douglas MacFaddin; Larry Langford; William Blount; and Albert LaPierre asserting fraud, unjust enrichment and conspiracy claims. The case was filed on November 13, 2009. The claims are alleged to be based, at least in part, on events that took place before September 30, 2008.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Commission seeks damages in excess of a billion dollars, and JPMorgan has counterclaimed for indemnification. Defendants moved to dismiss the Commission's claims, but the trial court allowed the claims to proceed. Certain defendants filed a writ of mandamus with the Alabama Supreme Court. The issues are fully briefed, and the Commission is awaiting a ruling from that court. The case is stayed pending the Supreme Court's ruling. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Syncora Guaranty v. Jefferson County, Alabama, et al, Case number 601100/10 was filed in the Supreme Court of New York, County of New York. This litigation was brought by Syncora, one of the insurers of Jefferson County's sewer warrants, against the Commission and JPMorgan. The case was filed on April 29, 2010. The claims are alleged to be based, at least in part, on events that took place before September 30, 2008. Syncora alleges that the Commission committed fraud in two ways. First, it alleges that the Commission suppressed the existence of analyses of the Commission's sewer operations that would have shown Syncora that the system's expected revenues were insufficient to meet its debt service obligations. Second, Syncora alleges that the Commission and JPMorgan concealed the bribery scheme that existed between certain Commissioners and JPMorgan. Syncora claims damages in excess of $400,000,000. Unlike the Bank of New York litigation where the plaintiff's recovery was limited to the net revenues of the sewer system, it is possible that Syncora could seek to collect any damages it is awarded from the Commission's general fund. The Commission has counterclaimed against Syncora, claiming that Syncora defrauded the Commission by concealing the weakness of Syncora's investment portfolio. Because of its exposure to unreasonable credit risks, Syncora's credit rating was downgraded, and that downgrade triggered the failure of auctions for the Commission's sewer warrants and caused the Commission damages. This case is in its early stages, and discovery is not complete. After a hearing on December 8, 2010, the trial court granted Syncora's motion to dismiss the Commission's counterclaims. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

CSX Transportation v. Jefferson County, Case number CV-10-1490, and *BNSF v. Jefferson County*, Case number 10-903065, were filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division. These cases seek a refund of County sales taxes that were paid on the retail sale of diesel fuel. These cases have been stayed by the trial court pending the outcome of a similar case filed against the State of Alabama which was argued to the Supreme Court of the United States in October 2010. No loss has been recorded by the Commission at September 30, 2008.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Claim for SEC Fair Fund Distribution and Fines Received from JPMorgan Entities. The Commission received $75,000,000, subsequent to September 30, 2008, as a result of a settlement between JPMorgan Securities, Inc. and the Securities Exchange Commission. Both the Bank of New York Mellon as Trustee for the Commission's Sewer Warrants and the Receiver appointed by the Jefferson County Circuit Court have given notice to the Commission under Alabama Code § 6-5-20 that they claim that the money should be applied to the outstanding sewer debts. The earlier of these presentments was made on November 4, 2010. The claims are alleged to be based, at least in part, on events that took place before September 30, 2008. Other than providing notice of claim, there has been no action on these matters. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Claim under Financial Guaranty Agreement with Syncora. Syncora gave notice of claim to the County under Alabama Code § 6-5-20 that it may seek reimbursement of $32,722,119 paid by Syncora on the County's behalf under various bond insurance policies from September 2008 to December 2008. The notice of claim was filed on September 10, 2010. The claim is alleged to be based, at least in part, on events that took place before September 30, 2008. This claim arises under a Financial Guaranty Agreement between the Commission and Syncora. The amount of the claim may change with time because Syncora claims that it is entitled to receive from the Commission the costs it incurs in attempting to collect any amount owed under the Financial Guaranty Agreement. There is currently no active litigation on this matter. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Claim of Assured Guaranty Municipal Corp. On December 10, 2010, Assured Guaranty Municipal Corp. made demand for reimbursement in the amount of $4,390,146 for draws made on insurance policies relating to the Commission's Sewer Warrants during the period September 30, 2008 through December 3, 2008, plus accrued interest, on Municipal Bond Debt Service Reserve Insurance Policy No. 201371-R.

The total amount of the claim as of December 10, 2010 was $5,032,109. Payments made on behalf of the Commission are accrued and reported as liabilities in these financial statements. The recourse for this payment is limited to sewer revenue. There is currently no active litigation on this matter. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

US Bank Notice of Default Regarding School Warrants. The Commission has been unable to replenish the Reserve Fund for the Series 2004-A, 2005-A and 2005-B Limited Obligation School Warrants as quickly as required by the Trust Indenture as a result of the credit rating downgrade of the issuer of the Surety Bond (Ambac) held as a part of the Reserve Fund. Despite continuing discussions, proposals and counterproposals with the Trustee, the default continues. There is currently no active litigation on this matter. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2008.

Notice by Bayern LB and JPMorgan under Standby Warrant Purchase Agreements. The Commission received notice from Bayern LB on August 10, 2010 and JPMorgan on October 25, 2010 that these entities were invoking their rights under Standby Warrant Purchase Agreements. These Agreements do not change the principal amount of the Commission's General Obligation Warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of warrants purchased pursuant to those Agreements. Approximately $118,740,000 of general obligation warrants are currently held by institutions who could claim rights under a Standby Warrant Purchase Agreement. There is currently no active litigation on this matter. The Commission cannot estimate a loss, if any, related to this claim as of September 30, 2008.

Potential Obligations under Standby Warrant Purchase Agreements Relating to Sewer Warrants (also discussed in Note J). Sewer warrants were purchased by financial institutions under Standby Warrant Purchase Agreements. The total principal amount of Sewer Warrants purchased under Standby Warrant Purchase Agreements is approximately $850,000,000. These Agreements do not change the principal amount of the Commission's Sewer Warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of Warrants purchased pursuant to those Agreements. No institution that could claim rights under a Standby Warrant Purchase Agreement relating to the Commission's Sewer Warrants has given notice of such a claim or potential claim to the Commission. There is currently no active litigation on this matter. The Commission cannot estimate a loss, if any, related to this potential claim as of September 30, 2008.

Notice of FSA for Reimbursement. The Commission received a letter dated October 17, 2008 from Assured Guaranty Municipal Corp. (AGM) (formally known as Financial Security Assurance, Inc.) for the reimbursement for draws on Municipal Bond Debt Service Reserve Insurance Policy No. 201371-R (the Policy). The Policy and the Insurance Agreement is between the Commission and AGM.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Commission received a letter from AGM, dated December 10, 2010, which indicated the amount of the reimbursement for a number of draws during the period from September 30, 2008 through December 3, 2008, in an amount that totaled $4,390,146 on the Policy. The Bank of New York Mellon is the Trustee and has made multiple draws on the Policy for interest payable on Parity Securities starting on September 30, 2008, and is expected to continue to make draws over the coming months for interest and possibly principal to come due.

The Commission is currently defending various other lawsuits. In addition, claims against the Commission have been filed that have not yet resulted in lawsuits. After consultation with legal counsel, management has indicated its intention to defend these actions, and management estimates that these matters will be resolved without a material adverse effect on the Commission's financial position, results of operations or cash flows.

The Commission has received federal and state grants for specific purposes that are subject to review and audit by the grantor agencies. Such audits could lead to requests for reimbursements to grantor agencies for expenditures disallowed under the terms of grants. Management believes such disallowances, if any, will be immaterial.

NOTE T - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At September 30, 2008, the Commission has commitments of the following:

Name of Commitment	(in Thousands) Amount
Bessemer Courthouse expansion	$ 11,862
Five Mile Creek sewer improvements	3,732
Kilgore Memorial Parkway	730
Lower Valley Creek sewer improvements	1,134
Morgan Road right of way	929
Mount Olive Road improvements	639
Shades Creek sewer improvements	3,702
Valley Creek sewer improvements	1,303
	$ 24,031

NOTE T - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS - Continued

From time to time, the Commission enters into agreements with developers and vendors to promote economic stimulus within Jefferson County. As of September 30, 2008, the Commission accrued expenses related to these agreements of $1,360,000 into general fund accounts payable in the accompanying balance sheet. As of September 30, 2008, the following schedule details estimated payments to be made in subsequent years assuming the developers and vendors meet specific criteria within the agreements (in thousands):

2009	$ 1,833
2010	3,286
2011	3,261
2012	2,961
2013	2,675
Thereafter	4,850
	$ 18,866

NOTE U - 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 department to finance losses.

- *Workers' Compensation* - Self-insured with a retention of $500,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

NOTE U - RISK MANAGEMENT - Continued

- *Property Insurance* - Commercial insurance coverage purchased in the amount of $300 million per occurrence, except a separate annual aggregate of $50 million flood and earthquake, to include the following sublimits: (a) the Commission participates in an Owner Controlled Insurance Program with respect to property in the course of construction, builder's risks and installation or erection; (b) $50 million per occurrence as included in the $300 million loss limit subject to the policy terms and conditions; (c) $6 million with respect to extra expense and (d) $500,000 with respect to transit.

- *Hospital and Nursing Home Medical Malpractice and General Liability* - Medical professional employees purchase individual insurance protection that is applicable to their County employment. The Commission reimburses premiums for medical malpractice - professional liability insurance coverage for County medical professional employees in amounts up to a stated amount per year. Coverage consists of $1 million per occurrence and $6 million aggregate.

- *Health Insurance* - Self-insured with excess coverage through a commercial insurance provider. The Commission purchases specific reinsurance coverage of $1,750,000 lifetime maximum per covered individual, subject to a $250,000 annual deductible and aggregate reinsurance coverage of $1,000,000 in the event claims exceed 125 percent of the expected claim level as established by the health insurance third-party administrator. Employees may obtain health care services through participation in the Commission's group health insurance plan. Risk management administers health insurance and negotiates with private providers to provide health, life, accidental death and dismemberment, vision and dental insurances for its employees and dependents. The Commission pays approximately 84 percent of health, 100 percent of basic life and accidental death and dismemberment, and the employees pay 100 percent of dental and vision insurance and other voluntary insurance plans. The Commission's risk financing activities associated with the Commission group health insurance, such as the risks of loss related to medical and prescription drug claims, are administered through third parties on a paid-claims basis.

NOTE U - RISK MANAGEMENT - Continued

For the year ended September 30, 2008, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

Balance October 1, 2007	Claims Incurred	Claims Paid	Increase/ Decrease in Provision	Balance September 30, 2008
$ 2,235,000	$ 32,264,000	$ (29,195,000)	$ (1,433,000)	$ 3,871,000

For the year ended September 30, 2008, changes in the claims liabilities for the general, auto and workers' compensation self-insured activities for the Commission are as follows:

	(in Thousands)							
	General Liability		Auto Liability		Workers' Compensation		Totals	
	2008	2007	2008	2007	2008	2007	2008	2007
Unpaid claims and claim adjustment expenses:								
Accrual at beginning of fiscal year	$ 1,794	$ 1,835	$ 594	$ 612	$ 3,970	$ 3,857	$ 6,358	$ 6,304
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	302	86	115	52	1,004	1,137	1,421	1,275
Increases/decreases in provision for insured events of prior fiscal years	(496)	-	(371)	-	836	-	(31)	-
Total incurred claims and claim adjustment expenses	(194)	86	(256)	52	1,840	1,137	1,390	1,275
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(230)	(127)	(115)	(70)	(1,291)	(1,024)	(1,636)	(1,221)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	-	-	-	-	-	-	-	-
Total payments	(230)	(127)	(115)	(70)	(1,291)	(1,024)	(1,636)	(1,221)
Accrual at end of fiscal year	$ 1,370	$ 1,794	$ 223	$ 594	$ 4,519	$ 3,970	$ 6,112	$ 6,358

NOTE V - SUBSEQUENT EVENTS

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Sewer Revenue Warrants

As of September 30, 2008, the Commission has outstanding $57,030 aggregate principal amount of its Series 1997-A Warrants, $13,740 of its Series 2001-A Warrants, $101,465 aggregate principal amount of its Series 2002-A Warrants, $409,638 of its Series 2002-C-2 to C-7 Warrants, $397,100 aggregate principal amount of its Series 2002-C-1-A to 1-D and 2001-C-5 Warrants, $25,220 of its Series 2003-A Warrants, $281,260 of its 2003-B-2 to B-7 Warrants (collectively referred to as the Variable Rate Demand Sewer Revenue Warrants), $119,965 of its Series 2003-B-8 Warrants (collectively referred as the Fixed Rate Sewer Revenue Warrants), $735,800 of its Series 2003-B-1-A to 1-E Warrants and $1,052,025 of its Series 2003-C Warrants (collectively referred to as the Auction Rate Sewer Revenue Warrants). Of the $3,193,243 of warrants outstanding at September 30, 2008, $2,851,253 of warrants are insured by FGIC or Syncora.

The Fixed Rate Sewer Revenue Warrants, the Variable Rate Demand Sewer Revenue Warrants and the Auction Rate Sewer Revenue Warrants are collectively referred to as the Sewer Revenue Warrants. The Sewer Revenue Warrants were issued pursuant to a Trust Indenture, dated as of February 1, 1997, between the Commission and The Bank of New York Mellon, as Trustee, as amended.

Material Events Notices

October 6, 2008 - The October 6, 2008, Material Event Notice disclosed that on October 1, 2008, the Commission entered into a separate letter agreement to extend the Liquidity Facility Forbearance Agreements and one Swap Forbearance Agreement dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC and one counterparty to a swap agreement (Bank of America, N.A.) to October 8, 2008, subject to early termination upon the occurrence of certain events. (Note that the other Swap Forbearance Agreements were previously extended to November 17, 2008.) Also see Liquidity Facility Forbearance Agreements (Note J) and Swap Forbearance Agreements (Note K).

NOTE V - SUBSEQUENT EVENTS - Continued

October 9, 2008 - The October 9, 2008, Material Event Notice disclosed that on October 8, 2008, the Commission entered into a separate letter agreement to further extend the Liquidity Facility Forbearance Agreements dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC to October 31, 2008, subject to early termination upon the occurrence of certain events. Also see Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements discussion below.

October 24, 2008 - The October 24, 2008, Material Event Notice disclosed that the Trustee delivered a Notice of Default by letter to the Commission dated October 15, 2008. The Notice of Default states that the County is in violation of certain covenants set forth in the Indenture and that such covenant defaults will become Events of Default if not cured within 30 days of the date of the notice. The Notice of Default also states that certain Events of Default have occurred.

The Commission has denied the existence of such covenant defaults and Events of Default in its answer to the complaint filed by the plaintiff. The court has not made determination on the existence of such covenant defaults or Events of Default. See Trustee Notice of Default discussion below.

October 28, 2008 - The October 28, 2008, Material Event Notice disclosed the further downgrade of the long-term ratings assigned to the warrants insured by Syncora from "B2" to "Caa1" by Moody's in conjunction with the corresponding reduction in such ratings agency's financial strength and financial enhancement ratings of Syncora.

November 10, 2008 - The November 10, 2008, Material Event Notice disclosed that on October 30, 2008, the Commission entered into a separate letter agreement to extend the Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC and the counterparties to the interest rate swap agreements to December 8, 2008, subject to early termination upon the occurrence of certain events. See Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements discussion below.

NOTE V - SUBSEQUENT EVENTS - Continued

December 8, 2008 - The December 8, 2008, Material Event Notice disclosed the further downgrade of the long-term ratings assigned to the warrants insured by Syncora and FGIC from 'BBB-' to 'B' and 'BB' to 'CCC,' respectively, by S&P in conjunction with the corresponding rating agency's financial strength and enhancement ratings of Syncora and FGIC. Fitch withdrew its long-term insured ratings assigned to Syncora and FGIC insured warrants on September 5, 2008 and November 24, 2008, respectively.

On November 21, 2008, the long-term insured ratings assigned to those warrants insured by AGM were reduced from 'Aaa' to Aa3' by Moody's in conjunction with the corresponding rating agency's financial strength and enhancement ratings of AGM.

A separate Material Event Notice dated December 8, 2008, disclosed that the Trustee delivered a Notice of Default by letter to the Commission dated November 14, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission to meet certain Reserve Fund Requirements. These covenant defaults will become Events of Default if not cured within 30 days of the date of the Notice of Default. See Trustee Notice of Default discussion in Note J.

December 19, 2008 - The December 19, 2008, Material Event Notice disclosed that on December 8, 2008, the Commission entered into separate letter agreements to extend the Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements dated March 31, 2008, with each of the banks (Liquidity Providers and Liquidity Agent), the Trustee, Syncora and FGIC and the counterparties to the interest rate swap agreements (except Lehman Brothers Special Financing, Inc.) to February 20, 2009, subject to early termination upon the occurrence of certain events. The Commission received a notice dated December 12, 2008, from Lehman Brothers Special Financing, Inc. that designated December 15, 2008, as the Early Termination Date under the interest rate swap agreements. See Liquidity Facility Forbearance Agreements (Note J) and Swap Forbearance Agreements and Interest Rate Swap Agreements Termination Events (Note K).

On December 19, 2008, the long-term insured rating assigned to those Sewer Revenue Warrants insured by FGIC was further reduced from 'B1' to 'Caa1' by Moody's.

NOTE V - SUBSEQUENT EVENTS - Continued

January 5, 2009 - The January 5, 2009, Material Event Notice disclosed that on December 19, 2008, the Trustee (Bank of New York Mellon) delivered a Notice of Default to the County by letter stating that the Commission is in violation of certain covenants set forth in the Indenture and that such covenant defaults will become Events of Default, as defined in the Indenture, if not cured within 30 days of the date of the Notice of Default. The Notice of Default also states that certain Events of Default have occurred. See Trustee Notices of Default discussion (Note J).

The Notice also disclosed that the net sewer revenues have not been sufficient to meet the debt service requirements on the Warrants in recent months, prior to December 19, 2008, due to the extraordinary increases in interest cost experienced by the Commission on the Variable Rate Demand Warrants and Auction Rate Warrants, as described in prior Notices.

The Trustee has been required to draw on the Debt Service Reserve Funds established under the Indenture, including the surety bonds held therein, to pay a portion of the debt service on the Warrants that were due in September, October, November and December 2008 totaling $40,918 of draws on the Reserve Fund. If net sewer revenues continue to be insufficient to meet the debt service obligations of the Warrants, the Trustee will be required to draw first on the Reserve Fund and then, if necessary, on the municipal bond insurance policies insuring the warrants to cover any deficiency.

The Liquidity Agent (JPMorgan Chase Bank) entered into Redemption Date Deferral Agreements with the Commission related to the Series 2002-C-2 warrants to defer the payments due to the Liquidity Agent and Providers to February 20, 2009, if a partial payment of $4,605 (originally due on December 8, 2008) is made by the Commission on or before January 2, 2009. The amount due at the expiration of the Liquidity Facility Forbearance Agreements, if such warrants are not remarketed, as of the October 29, 2008, Material Event Notice totaled approximately $34,865.

In addition, the Commission entered into forbearance agreements with the Liquidity Providers (Liquidity Agreement Forbearance Agreements - Note J) and has repaid a portion of the outstanding obligation for the tendered warrants subsequent to year end.

NOTE V - SUBSEQUENT EVENTS - Continued

February 24, 2009 - The February 24, 2009, Material Event Notices disclosed that on February 17, 2009, the Trustee (Bank of New York Mellon) delivered a Notice of Default to the Commission by letter stating that the Commission is in violation of certain covenants set forth in the Indenture and that such covenant defaults will become Events of Default, as defined in the Indenture, if not cured within 30 days of the date of the Notice of Default. The Notice of Default also states that certain Events of Default have occurred.

March 9, 2009 - The March 9, 2009, Material Event Notice disclosed that on February 20, 2009, JPMorgan Chase Bank, Bear Stearns Capital Markets, Inc. and Bank of America, N.A. extended the forbearance period with regard to its interest rate swap transactions through April 20, 2009, subject to early termination upon the occurrence of certain events.

See the section entitled "Interest Rate Swap Agreements Termination Events" in Note K - Derivatives/Interest Rate Swap Agreements for further discussion regarding the termination of the interest rate swap agreements.

The Swap Forbearance Agreement with Lehman Brothers Special Financing, Inc. expired on November 17, 2008, and as of the date of this Notice, the Commission had not obtained an extension. The Commission received notices dated March 2, 2009, from both JPMorgan and Bear Stearns designating March 3, 2009, as the Early Termination Date under the Swap Agreements with regard to each of the interest rate swap transactions between JPMorgan, Bear Stearns and the County. By separate notices, both JPMorgan and Bear Stearns provided calculations of the aggregate swap termination payments due JPMorgan and Bear Stearns of $647,804 and $9,061, respectively. JPMorgan Chase Bank waived the $647,804 of termination payments on November 4, 2009, as part of a legal settlement with the SEC and the Commission. See Note K, Interest Rate Swap Agreements Termination Events for further discussion.

On January 29, 2009, the long-term insured rating assigned to those Warrants insured by Syncora was further reduced from "B" to "CC" by S&P in conjunction with corresponding reduction in such rating agency's financial strength and financial enhancement rating of Syncora.

NOTE V - SUBSEQUENT EVENTS - Continued

Similarly, on March 9, 2009, the long-term insured rating assigned to those Warrants insured by Syncora was further reduced from "Caa1" to "Ca" by Moody's in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Syncora.

On March 28, 2008, S&P lowered its financial strength rating on FGIC from "A" to "BB" resulting in a suspension of the rating assigned to the Series 2002-A Warrants. For those issuers or issues which have a Standard Poor's underlying rating (SPUR), S&P will rate to the higher of the SPUR or the insurer. At the time of issuance, a SPUR was not obtained for the Series 2002-A Warrants.

Likewise, on November 18, 2008, S&P lowered its financial strength rating on Syncora from "BBB-" to "B" and suspended its ratings on all municipal transactions insured by Syncora that do not have a SPUR. At the time of issuance, a SPUR was not obtained for the Syncora insured Series 2002-C Warrants, prompting S&P to suspend its rating assigned to the Series 2002-C Warrants. On December 1, 2008, the long-term insured rating associated with the Syncora insured Series 2003-B-2 through Series 2003-B-7 Warrants was inadvertently suspended by S&P in their internal system. On February 20, 2009, S&P reinstated both the long-term insured rating ("CC") and the SPUR ("D") for the Series 2003-B-2 through Series 2003-B-7 Warrants and issued an accompanying ratings release.

April 6, 2009 - The April 6, 2009, Material Event Notice disclosed that on March 24, 2009, the Trustee delivered a notice of default to the County by letter stating that the Commission is in violation of certain covenants set forth in the Indenture and that such covenant defaults will become Events of Default, as defined in the Indenture, if not cured within 30 days of the date of the Notice of Default. The Notice of Default also states that certain Events of Default have occurred. See Note J for further discussion.

As described in a Prior Notice, the Trustee, at the direction of FGIC and Syncora, has filed a lawsuit against the County seeking, among other relief, the appointment of a receiver over the County's sewer system. The lawsuit is styled *The Bank of New York Mellon, as Trustee, Financial Guaranty Insurance Company and Syncora Guarantee, Inc. (f/k/a XL Capital Assurance Inc.) v. Jefferson County, Alabama, et al.*, and is pending in the United States District Court, Northern District of Alabama, CV-08-H-1703-S. The Trustee has asserted, among other grounds, the existence of certain covenant defaults and Events of Default described herein and in prior notices of default as the basis for the relief sought in the lawsuit.

NOTE V - SUBSEQUENT EVENTS - Continued

The Commission denied the existence of such covenant defaults and Events of Default in its defense of the lawsuit filed by the plaintiffs. At this time, the court has not made any determinations regarding the existence of such covenant defaults or Events of Default.

May 4, 2009 - The May 4, 2009, Material Event Notice disclosed that on April 20, 2009, the County entered into a separate letter agreement with each of the Liquidity Providers and the Liquidity Agent, which further extended the forbearance period. The letter agreements provide that it is not the Liquidity Providers current intent to exercise their rights and remedies prior to May 29, 2009.

On April 20, 2009, JPMorgan Chase Bank, Bear Stearns Capital Markets, Inc. and Bank of America, N.A. extended the forbearance period with regard to its interest rate swap transactions through May 29, 2009, subject to termination at any time at the discretion of such counterparties, provided that such counterparties have reserved the right to exercise their rights and remedies at any time in their sole discretion. The Swap Forbearance Agreement with Lehman Brothers Special Financing expired on November 17, 2008, and as of the date of this Notice, the County has not obtained an extension.

On March 24, 2009, the long-term insured rating assigned to those Warrants insured by FGIC was further reduced from "Caa1" to "Caa3" by Moody's in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of FGIC.

On April 22, 2009, the long-term insured rating assigned to those Warrants insured by FGIC was further reduced from "CCC" to "CC" by S&P in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of FGIC.

June 5, 2009 - The June 5, 2009, Material Event Notice disclosed that on June 3, 2009, the Commission sent a document to certain of its creditors and other persons that set forth the circumstances that, in the County's view, led to its current financial troubles. No assurance can be given that the proposal set forth in the document will be accepted by, or that any other consensual resolution to the County's financial problems will be reached with, the Commission's creditors.

NOTE V - SUBSEQUENT EVENTS - Continued

July 6, 2009 - The July 6, 2009, Material Event Notice disclosed that on July 1, 2009, debt service payments on certain of the Warrants were due. The Trustee applied net sewer revenues from the Commission to the payment of all interest due on the Warrants on such date. Certain Warrants have been purchased by a Liquidity Provider pursuant to a Liquidity Facility and are insured by a bond insurance policy issued by FGIC. Such FGIC-insured Warrants were called for redemption on July 1, 2009, pursuant to the accelerated amortization provision of such Liquidity Facility and were paid from a draw on the FGIC bond insurance policy insuring the payment of such Warrants because the Commission's net sewer revenues were not sufficient to make such payment. Certain other Warrants have been purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on July 1, 2009, pursuant to the accelerated amortization provisions of such Liquidity Facilities. Syncora has suspended payment on its insurance policies, and the Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants. As a result, the $46,056 aggregate principal amount of Syncora-insured Warrants called for redemption on July 1, 2009, was not paid by either the Commission or Syncora.

As described in Prior Notices, the Commission entered into a separate Forbearance Agreement and Reservation of Rights, dated as of March 31, 2008, with each of the Liquidity Providers providing Liquidity Facilities with respect to Variable Rate Demand Warrants. Each of the Liquidity Providers subsequently agreed to extensions of the forbearance period through June 30, 2009. By letter dated June 30, 2009, JPMorgan Chase Bank, in its capacity as a Liquidity Provider, further extended the forbearance period with regard to the Variable Rate Demand Warrants purchased by it pursuant to its Liquidity Facilities. The letter provides that it is not JPMorgan Chase Bank's current intent to exercise its rights and remedies prior to July 31, 2009. The other Liquidity Providers elected not to extend their forbearance beyond June 30, 2009, and the Liquidity Facility Forbearance Agreements with such Liquidity Providers expired on such date.

NOTE V - SUBSEQUENT EVENTS - Continued

Each of these counterparties subsequently agreed to extensions of the forbearance period with regard to its interest rate swap transactions through June 30, 2009. By letter dated June 30, 2009, JPMorgan Chase Bank and Bear Stearns Capital Markets. Inc. further extended the forbearance period with regard to their interest rate swap transactions. The letters provide that it is not JPMorgan Chase Bank's or Bear Stearns Capital Markets, Inc.'s current intent to exercise their rights and remedies prior to July 31, 2009. Bank of America elected not to extend its forbearance beyond June 30, 2009, and the Swap Forbearance Agreement with Bank of America expired on such date. A Swap Forbearance Agreement with Lehman Brothers Special Financing, Inc. expired on November 17, 2008. The lien on the net revenues from the Commission's sewer system securing the Commission's obligations to the counterparties is described in Prior Notices.

On May 11, 2009, the long-term insured rating assigned to those Warrants insured by AGM was reduced from "AAA" to "AA+" by Fitch in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of AGM.

August 24, 2009 - The August 24, 2009, Material Event Notice disclosed that on August 3, 2009, S&P corrected its long-term insured rating on the FGIC insured Series 1997-A, Series 2001-A, Series 2003-B-1-A through Series 2003-B-1-E and Series 2003-C-1 through Series 2003-C-8 Warrants by a reduction from "CCC-" to "C." Likewise, on August 3, 2009, S&P corrected its long-term insured rating on the Series 2003-B-2 through Series 2003-B-7 Warrants insured by Syncora by a reduction from "CC-" to "D."

On September 16, 2008, the Trustee, at the direction of FGIC and Syncora, filed a lawsuit in the United States District Court, Northern District of Alabama against the Commission seeking, among other relief, the appointment of a receiver over the Jefferson Commission sewer system. On July 6, 2009, the District Court entered an order administratively terminating the Trustee's motion for the appointment of a receiver and stayed all proceedings on the Trustee's claims pending resolution of the receiver request in State court. On August 3, 2009, the Trustee, on behalf of the bondholders, filed suit against the Commission in the Circuit Court of Jefferson County seeking the appointment of a receiver and a court order requiring the Commission to raise sewer rates and impose additional user charges and fees to pay bondholders. The Commission opposed the appointment of a receiver and the other relief requested in the lawsuit.

NOTE V - SUBSEQUENT EVENTS - Continued

October 26, 2009 - The October 26 2009, Material Event Notice disclosed that on October 1, 2009, debt service payments on certain of the Warrants were due. The Commission's net sewer revenues provided to the Trustee were sufficient for payment of all interest due on the Warrants on such date. Certain other Warrants have been purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on October 1, 2009, pursuant to the accelerated amortization provisions of such Liquidity Facilities. Syncora has suspended payment on its insurance policies, and the Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants. As a result, the $46,061 aggregate principal amount of Syncora-insured Warrants called for redemption on October 1, 2009, was not paid by either the Commission or Syncora.

On October 12, 2009, the long-term insured rating assigned to those Warrants insured by AGM was reduced from "AA" to "AA-" by Fitch in conjunction with the corresponding reduction in such rating agency's strength and financial enhancement rating of AGM.

February 3, 2010 - The Trustee delivered a Notice of Default to the Commission dated February 3, 2010 pursuant to Section 13.1c of the Indenture. The Trustee issued a demand for the Commission to cure its covenant defaults and the Events of Default which continue unabated. The Trustee notified the Commission of failure to comply with Sections 11.3 and 11.11 for failure to restore the Reserve Fund to the Reserve Fund Requirement; failure to comply with Section 12.2 and to furnish the audit within 180 days of year end; failure to comply with Section 12.5 to increase the rates and charges to comply with the Rate Covenant on January 1, 2010 and the continuation of other notices given on March 24, 2009, February 17, 2009, December 19, 2008, October 15, 2008 and September 2, 2008 (as discussed above and in Note J).

March 3, 2010 - The March 3, 2010, Material Event Notice disclosed that on February 24, 2010, the long-term insured rating assigned to those Warrants insured by AGM was withdrawn by Fitch at the request of Assured Guaranty Ltd., AGM's parent company.

October 4, 2010 - The October 4, 2010, Material Event Notice disclosed that on October 1, 2010, debt service payments on certain of the Warrants were due. The Commission's net sewer revenues provided to the Trustee were sufficient for payment of all interest due on the Warrants on such date.

NOTE V - SUBSEQUENT EVENTS - Continued

Certain other Warrants have been purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on October 1, 2010, pursuant to the accelerated amortization provisions of such Liquidity Facilities. Syncora has suspended payment on its insurance policies, and the Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants. As a result, the $46,061 aggregate principal amount of Syncora-insured Warrants called for redemption on October 1, 2010, was not paid by either the County or Syncora. On September 22, 2010, the Circuit Court entered an order granting the Trustee's request for the appointment of a receiver regarding the suit styled *The Bank of New York Mellon, as Indenture Trustee v. Jefferson County, Alabama, et al.*, 01-CV-2009-002318.

November 1, 2010 - The November 1, 2010, Material Event Notice disclosed that on October 25, 2010, the long-term insured rating assigned to those Warrants insured by AGM was reduced from "AAA" to "AA+" by S&P in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of AGM.

Warrant Events of Default

As discussed above, the Trustee has delivered several Notices of Default to the Commission, which have become Events of Default, as defined by the Indenture, when not cured within the 30-day time period. As a result, substantially all of the Sewer Revenue Warrants are currently in default.

Warrant Repayments Subsequent to Year End

In connection with scheduled maturities and certain forbearance agreements entered into with the banks and liquidity providers, as discussed above, the Commission has made payments on various warrants totaling approximately $86,275 from September 30, 2008 through September 30, 2009. Certain additional payments totaling approximately $239,654 were made by the bond insurers (FGIC and Syncora).

The Commission has also made agreed upon interest payments in connection with the extension of certain forbearance agreements related to the warrants outstanding subsequent to year end. In certain cases, part of the interest payments was made by the bond insurers on behalf of the Commission. Any remaining balance due will be payable within a few days of the expiration of such agreements.

NOTE V - SUBSEQUENT EVENTS - Continued

Notice of Issuer Event of Default on Repurchase Agreement
The Commission held an Investment Repurchase Agreement (the Agreement) dated March 1997 with The Bank of New York Mellon (the Trustee), Wells Fargo Bank (as Custodian) and Bayerische Landesbank through its New York Branch (the Seller). The Seller notified the Commission on October 16, 2008, that an event of default had occurred under the Agreement pursuant to Section 11.2(c) and declared an immediate repurchase date for all remaining securities held in the custody account. As a result, the repurchase agreement with an initial contract amount of $54,095 (discussed further in Note D to the financial statements) was terminated and repaid.

Reduction in Restricted Cash Balances
Payments have been made from restricted cash accounts held by the Trustee subsequent to year end for sewer improvements or debt service on the warrants (principal or interest). Such restricted cash accounts had a balance of $187,779 as of September 30, 2008.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants, Limited Obligation School Warrants and Lease Revenue Warrants

As of September 30, 2008, the Commission has outstanding $28,185 aggregate principal of its General Obligation Warrants, Series 2001-A, $120,000 aggregate principal of its General Obligation Warrants, Series 2001-B (Variable Rate Warrants), $56,310 aggregate principal of its General Obligation Warrants, Series 2003-A, $51,020 aggregate principal of its General Obligation Warrants, Series 2004-A, $607,115 aggregate principal of its Limited Obligation School Warrants, Series 2004-A (together, the Fixed Rate Warrants), $318,500 of its Limited Obligation School Warrants, Series 2005-A ($159,250 of Auction Rate Warrants) and 2005-B ($159,250 of Variable Rate Warrants) and $85,755 of its Lease Revenue Warrants, Series 2006.

Material Events Notices

October 6, 2008 - The October 6, 2008, Material Event Notice disclosed the extension of the Forbearance Agreement dated September 15, 2008, related to the General Obligation Warrants, Series 2001-B. On September 30, 2008, the Commission entered into a separate letter agreement with each of the Liquidity Providers which further extended the forbearance period until October 8, 2008.

NOTE V - SUBSEQUENT EVENTS - Continued

October 9, 2008 - The October 9, 2008, Material Event Notice disclosed the extension of the Forbearance Agreement dated September 15, 2008 (discussed above), for the General Obligation Warrants, Series 2001-B. On October 8, 2008, the Commission entered into a separate letter agreement with each of the Liquidity Providers which further extended the forbearance period until October 31, 2008.

November 10, 2008 - The November 10, 2008, Material Event Notice disclosed rating downgrades on the long-term ratings on the General Obligation Warrants, Series 2001-B, and Lease Revenue Warrants, Series 2006, insured by Ambac reduced by Moody's from 'Aa3' to 'Baa1' and insured by National (formerly known as MBIA) reduced by Moody's from 'A2' to 'Baa1' in conjunction with the corresponding reduction of the agency's financial strength and financial enhancement ratings. Fitch withdrew its long-term insured ratings assigned to the National (formerly known as MBIA), and Ambac insured warrants on June 26, 2008.

November 10, 2008 - The November 10, 2008, Material Event Notice disclosed the separate letter agreement extending the Forbearance Agreement dated September 22, 2008, related to the General Obligation Warrants, Series 2001-B. On October 30, 2008, the Commission made a partial payment of the amounts due to the Liquidity Providers of $10,000 in connection with the execution of a letter agreement with the Liquidity Providers which further extended the forbearance period to January 15, 2009.

December 8, 2008 - The December 8, 2008, Material Event Notices disclosed a ratings downgrade related to the General Obligation Warrants, Series 2001-A, Series 2003-A and Series 2004-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and Lease Revenue Warrants, Series 2006. On November 19, 2008, the long-term insured ratings assigned to the Ambac and National (formerly known as MBIA) insured Warrants related to the General Obligation Warrants, Series 2001-A, Series 2003-A and Series 2004-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and Lease Revenue Warrants, Series 2006, by S&P were reduced from 'AA' to 'A' in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac.

NOTE V - SUBSEQUENT EVENTS - Continued

***January 15, 2009* -** The January 15, 2009, Material Event Notice disclosed the separate letter agreement extending the Forbearance Agreement dated September 22, 2008, related to the General Obligation Warrants, Series 2001-B. On January 15, 2009, the Commission made a partial payment of the amounts due to the Liquidity Providers of $5,000 in connection with the execution of a letter agreement with the Liquidity Providers which further extended the forbearance period to March 12, 2009.

***March 17, 2009* -** The March 17, 2009, Material Event Notice disclosed the separate letter agreement extending the Forbearance Agreement dated September 22, 2008, related to the General Obligation Warrants, Series 2001-B. On March 12, 2009, the Commission executed a letter agreement with the Liquidity Providers which further extended the forbearance period to June 20, 2009.

***May 4, 2009* -** The May 4, 2009, Material Event Notices disclosed a ratings downgrade related to the General Obligation Warrants, Series 2001-A, Series 2003-A and Series 2004-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and Lease Revenue Warrants, Series 2006. On April 13, 2009, the long-term insured rating assigned by Moody's to the Ambac insured Warrants was reduced from "Baa1" to "Ba3" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement ratings of Ambac. On April 28, 2009, the underlying rating assigned to the Warrants by Moody's was reduced from "B3" to "Caa1."

***July 20, 2009* -** The July 20, 2009, Material Event Notices disclosed a ratings downgrade related to the General Obligation Warrants, Series 2001-A, Series 2003-A and Series 2004-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and Lease Revenue Warrants, Series 2006. On June 5, 2009, the long-term insured rating assigned to the National insured Warrants, related to the General Obligation Warrants, Series 2003-A and Series 2004-A, was reduced from "AA-" to "A" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of National.

On June 24, 2009, the long-term insured rating assigned to the Ambac insured Warrants, related to the General Obligation Warrants, Series 2001-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and the Lease Revenue Warrants 2006, by S&P was reduced from "A" to "BBB" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac.

NOTE V - SUBSEQUENT EVENTS - Continued

August 24, 2009 - The August 24, 2009, Material Event Notice disclosed the separate letter agreement extending the Forbearance Agreement dated September 15, 2008, related to the General Obligation Warrants, Series 2001-B. On August 18, 2009, the Liquidity Provider further extended the forbearance period to September 14, 2009. On July 29, 2009, the long-term insured rating assigned to the Ambac insured Warrants, related to the General Obligation Warrants, Series 2001-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and the Lease Revenue Warrants, Series 2006, by Moody's was reduced from "Ba3" to "Caa2" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac.

In addition, the Trustee delivered a Notice of Default to the Commission by letter dated July 30, 2009 stating that a payment event of default occurred due to the Commission's failure to pay $19,790 in accelerated principal installments on the General Obligation Warrants, Series 2001-B.

The August 24, 2009, Material Event Notice disclosed a Notice of Default, dated July 30, 2009 received from The Bank of New York Mellon (as Indenture Trustee) for the General Obligation Warrants, Series 2001-B. The Notice of Default states that Events of Default have occurred under the Indenture due to the Commission's failure to pay $19,790,000 in principal installments due on the Series 2001-B Warrants called for redemption pursuant to the terms of (i) the Indenture and (ii) a Standby Warrant Purchase Agreement dated as of July 1, 2001 between the Commission, JPMorgan Chase Bank, Bayerische Landesbank and the Trustee.

February 4, 2010 - The Trustee delivered a Notice of Default to the Commission dated December 28, 2009 pursuant to Section 17.1(b) of the Indenture for the Limited Obligation School Warrants, Series 2004-A, Series 2005-A and Series 2005-B. The Notice of Default states that the Commission is in violation of certain covenants set forth in the Indenture and that such covenant defaults will become Events of Default if not cured within 30 days of the notice date. The Trustee gave notice that a covenant default has occurred and is continuing as a result of the failure of the Commission to comply with Section 14.3 and 14.8 of the Indenture that requires the Reserve Fund Requirement be satisfied, in whole or in part, by depositing with the Trustee a surety bond or insurance policy that satisfies the requirements specified in Section 14.8.

NOTE V - SUBSEQUENT EVENTS - Continued

Events of Default under the Indenture have occurred and are continuing under Section 13.1(a) of the Indenture as a result from a ratings downgrade of Ambac, the provider of the surety bond in the face amount of $29,438,296 held by the Trustee as part of the Debt Service Fund for the Warrants. The Commission has been unable to deliver a replacement surety bond or letter of credit as required by the Trust Indenture dated December 1, 2004, as supplemented by the First Supplemental Indenture dated as of January 1, 2005, nor has it been able to deposit sufficient cash within the time required to cure the deficiency in the Reserve Fund Requirement (as defined in the Trust Indenture) caused by the ratings downgrade of the Surety Bond. A deposit of $3,275,383 was made to the Reserve Fund on December 21, 2009.

March 31 2010 - The March 31, 2010, Material Event Notice disclosed the Forbearance Agreement dated September 15, 2008, expired on January 29, 2010, related to the General Obligation Warrants, Series 2001-B. In addition, the Liquidity Providers notified the Commission via letter dated March 18, 2010 that additional payment events of default occurred on March 15, 2009, September 15, 2009, and March 15, 2010. On March 25, 2010, the long-term insured rating assigned to the Ambac insured Warrants, related to the General Obligation Warrants, Series 2001-A, Series 2003-A and Series 2004-A, Limited Obligation School Warrants, Series 2005-A and Series 2005-B, and the Lease Revenue Warrants, Series 2006, by S&P was reduced from "CC" to "R" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac.

May 6, 2010 - The Commission received a Notice of Default under Standby Warrant Purchase Agreement dated May 6, 2010 from Depfa Bank PLC. Depfa Bank became a holder of approximately $179,750 of tendered warrants on February 14, 2008 pursuant to the Standby Warrant Purchase Agreement for the Limited Obligation School Warrants Series 2005-B. Depfa Bank claims that the Commission failed to give them priority regarding certain redemptions of warrants with excess tax proceeds on or about March 1, 2008. Depfa further notes the defaults described in the December 28, 2009 Notice (discussed above). As a result, Depfa Bank has exercised its right to charge the default rate of interest as allowed under the Agreement and notified the Commission.

July 15, 2010 - The July 15, 2010, Material Event Notice disclosed a ratings downgrade related to the General Obligation Warrants, Series 2001-B. On July 6, 2010, the underlying rating assigned to the General Obligation Warrants, Series 2001-B, by S&P was withdrawn.

NOTE V - SUBSEQUENT EVENTS - Continued

September 29, 2010 - The September 29, 2010, Material Event Notice disclosed a payment event of default related to the General Obligation Warrants, Series 2001-B. On September 15, 2010, General Obligation Warrants, Series 2001-B, were not redeemed by the Commission, as required under the accelerated redemption provisions of the Standby Warrant Purchase Agreement.

November 8, 2010 - On November 8, 2010, Ambac Financial Group, Inc. petitioned for Chapter 11 bankruptcy. Any reorganization would presumably leave the company's bond insurance subsidiary, Ambac Assurance Corp., untouched and capable of paying claims on defaulted municipal bonds.

December 13, 2010 - The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the General Obligation Warrants, Series 2001-A, insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating. The current long-term rating assigned by S&P to the Ambac insured Warrants remains "B" to match the SPUR for those Warrants.

December 13, 2010 - The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the Limited Obligation School Warrants, Series 2005-A and Series 2005-B, insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating. The current long-term rating assigned by S&P to the Ambac insured Warrants remains "BBB" to match the SPUR for those Warrants.

December 13, 2010 - The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the Lease Revenue Warrants, Series 2006. The Warrants are insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating. The current long-term rating assigned by S&P to the Ambac insured Warrants remains "B-" to match the SPUR for those Warrants.

Liquidity Facility Forbearance Agreements
As a result of certain Notices of Events of Default which are described in the Material Event Notices and under the Notice of Event of Default section above, the Liquidity Providers were allowed to immediately terminate without notice or demand.

NOTE V - SUBSEQUENT EVENTS - Continued

The Commission subsequently entered into separate agreements with each party to extend the Forbearance Agreements. The forbearance period expired on June 30, 2009, for the Series 2002-C-3, 2002-C-4, 2002-C-6, 2002-C-7, 2003-B-2, 2003-B-3, 2003-B-4, 2003-B-5, 2003-B6 and 2003-B-7 warrants. The forbearance period expired on July 31, 2009, for the Series 2002-A and 2002-C-2 warrants. The forbearance period expired on September 14, 2009, for the GO Series 2001-B warrants.

Warrant Events of Default

As discussed above and in Note J, the Trustee has delivered certain Notices of Default to the Commission, which have become Events of Default, as defined by the Indenture, when not cured within the 30-day time period. As a result, the GO Series 2001-B and LO Series 2004-A, 2005-A and 2005-B are currently in default.

NOTE W - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*, which is effective for the Commission beginning with the fiscal year ended September 30, 2008. This statement requires that the Commission accrue the cost of the Commission's retiree health subsidy and other postemployment benefits (OPEBs) during the period of employees' active employment as the benefits are being earned. It requires the unfunded actuarial accrued liability be disclosed in order to accurately account for the total future cost of OPEBs and the financial impact on the Commission. The amount of the additional liability attributable to the Commission has not been determined.

In June 2008, the GASB issued Statement No. 53, *Accounting and Financial Reporting for Derivative Instruments*, which is effective for the Commission beginning with the fiscal year ending September 30, 2010. GASB Statement No. 53 requires the fair value of financial arrangements considered "derivatives" or "derivative instruments" be reported in the financial statements of state and local governments. The effect of the implementation of GASB Statement No. 53 on the Commission has not been determined but, based on the fair values of interest rate swaps as disclosed in Note K, has potential for significant impact on the Commission's financial position.

NOTE W - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

In February 2009, the GASB issued Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which is effective for the Commission beginning with the fiscal year ending September 30, 2011. GASB Statement No. 54 establishes the criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The statement requires that fund balance reclassifications made to conform to the provisions of this statement should be applied retroactively by restating fund balance for all prior periods presented. The effect of the implementation of GASB Statement No. 54 on the Commission has not been determined.

In March 2009, the GASB issued Statement No. 56, *Codification of Accounting and Financial Reporting Guidance Contained in the AICPA Statements on Auditing Standards*, which is effective upon issuance. GASB Statement No. 56 establishes accounting and financial reporting standards for related party transactions, subsequent events and going concern considerations for all state and local governments. The effect of the implementation of this statement on the Commission has not been determined.

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, which is effective for the Commission beginning with the fiscal year ending September 30, 2010. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. The effect of the application of this statement on the Commission has not been determined.

NOTE X - UNCERTAINTIES

In the first quarter of calendar 2008, rating agencies downgraded the credit ratings of certain bond insurers that insure portions of the Commission's variable rate and auction rate indebtedness related to the Jefferson County Commission Sewer System (the System). The ratings downgrades of these bond insurers caused the remarketing mechanisms for the System's variable and auction rate debts to fail, resulting in higher interest rates and, in the case of all outstanding variable rate warrants, accelerated amortization of principal on warrants held by the liquidity banks. Prior to these events, the System's cash flows generally were, and have continued to be, sufficient to meet operating expenses and to service the regularly-scheduled debt on the System.

NOTE X - UNCERTAINTIES - Continued

As a result of these events, debt service on the System debt, taking into account the accelerated payments due to the liquidity banks, has exceeded the net revenues of the System. However, the Commission continues to operate the System, collect revenues and plan and carry out needed maintenance and capital improvements.

The System's debt is payable only from the net revenues of the System. The System's debt is nonrecourse to the Commission and is not payable from the Commission's General Fund or any non-System revenues. Nevertheless, the Commission Finance Committee proposed for the Commission to address the System's financial difficulties by filing a petition under Chapter 9 of Title 11 of the United States Code (Adjustment of Debts of a Municipality); such motion was defeated by vote of the full Commission in October 2008.

Unaudited financial data for fiscal year 2009 show that the net revenues of the System were insufficient to service the System's debt when calculated to include the accelerated principal. Subsequent to September 30, 2008, the bond insurers have paid a portion of the System's debt service pursuant to policies issued in connection with the System's debt, and such policies provide for the Commission's reimbursement of the payments made by the bond insurers. Because the System's debt is secured by a pledge of only the net revenues of the System, the Commission is allowed by the governing documents, consistent with applicable law, to pay all operating expenses prior to the payment of debt service. Because of the nonrecourse nature of the System debt, holders of the System debt have no claim against the Commission's General Fund or non-System revenues.

As of September 30, 2008, the Commission was engaged in negotiations with various holders of sewer warrants to refinance or restructure the System debt without recourse to a chapter 9 filing. During 2009 and through September of 2010, the Commission continued discussions with various holders of System debt but was unable to reach resolution. On September 22, 2010, the trustee of the Sewer warrants obtained appointment of a receiver over the System. See Note S for a discussion of the related litigation. The receiver has authority with respect to factors that may affect a refinancing or restructure of the System debt, such as System operations and revenues. Certain holders of System debt have expressed a desire to delay substantive negotiations until they can assess the effect of the receivership on net System revenues. The Commission believes that a refinancing or restructuring of the System debt remains achievable outside of bankruptcy. However, the outcome cannot be assured at this time.

NOTE X - UNCERTAINTIES - Continued

On December 1, 2010, the Circuit Court of Jefferson County ruled that Act 2009-811 of the Alabama Legislature, pursuant to which the Commission had levied an occupational and business license tax, was unconstitutional. The Commission has appealed the decision to the Alabama Supreme Court. See Note S for a discussion of the related litigation. Although there is no impact on the accompanying financial statements as of September 30, 2008, the resulting loss of tax revenue could have a material effect on future operations, unless the Alabama Supreme Court reverses the decision or the Legislature passes legislation authorizing a replacement tax. While the Commission believes both judicial and legislative action to reverse the loss of tax revenue is possible, the outcome cannot be assured at this time.

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 153,530	$ 154,684	$ 102,574	$ 102,574
Licenses and permits	76,408	76,407	76,832	76,832
Intergovernmental	54,728	45,340	38,378	38,378
Charges for services, net	36,430	37,050	28,279	28,279
Miscellaneous	6,696	2,554	5,762	5,762
Interest and investment	-	3,298	4,408	4,408
	327,792	319,333	256,233	256,233
Expenditures				
Current:				
General government	213,812	244,184	151,366	151,366
Public safety	66,806	68,894	72,904	72,904
Highway and roads	40,979	31,909	28,361	28,361
Health and welfare	-	-	39	39
Environmental services	-	35	108	108
Culture and recreation	5,901	-	10,286	10,286
Education - other	-	168	167	167
Capital outlay	-	2,435	(1,409)	(1,409)
Debt service:				
Interest and fiscal charges	-	-	185	185
	327,498	347,625	262,007	262,007
Deficiency of Revenues over Expenditures	294	(28,292)	(5,774)	(5,774)
Other Financing Sources (Uses)				
Sale of capital assets	-	647	117	117
Transfers in	-	3,402	22,703	22,703
Transfers out	(5,220)	(1,228)	(7,797)	(7,797)
	(5,220)	2,821	15,023	15,023
Net Changes in Fund Balances	(4,926)	(25,471)	9,249	9,249
Fund Balance - beginning of year, as restated	32,837	32,837	32,837	32,837
Fund Balance - end of year	$ 27,911	$ 7,366	$ 42,086	$ 42,086

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - INDIGENT CARE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2008

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 47,948	$ 47,948	$ 45,485	$ 45,485
Miscellaneous	342	342	131	131
Interest and investment	-	-	19	19
	48,290	48,290	45,635	45,635
Other Financing Sources (Uses)				
Transfers in	-	249	249	249
Transfers out	48,290	(78)	(44,776)	(44,776)
	48,290	171	(44,527)	(44,527)
Net Changes in Fund Balances	-	48,461	1,108	1,108
Fund Balance - beginning of year	7,954	7,954	7,954	7,954
Fund Balance - end of year	$ 7,954	$ 56,415	$ 9,062	$ 9,062

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2008

The Limited Obligation School Fund is a major special revenue fund. However, no legally adopted budget is required to be prepared under the County Financial Control Act of 1935. Therefore, no budget and actual comparison is presented for this fund.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
COMBINING BALANCE SHEET - NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	Bridge and Public Building Fund	Community Development Fund	Capital Improvements Fund
Cash and investments	$ -	$ -	$ -
Accounts receivable, net	-	-	5
Taxes receivable, net	40,343	-	-
Due from other governments	463	-	-
Prepaid expenses	-	-	51
Loans receivable, net	-	912	-
Restricted assets	-	-	-
Advances due from (to) other funds	-	-	-
	$ 40,806	$ 912	$ 56
LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	$ -	$ 529	$ 2,199
Deferred/unearned revenue	42,088	-	1,615
Accrued wages and benefits	-	62	-
Accrued interest	-	-	-
Swap termination liability	-	-	-
Retainage payable	-	-	1,192
Estimated liability for compensated absences	-	-	-
Total Liabilities	42,088	591	5,006
Fund Balances			
Reserved for:			
Advances due from other funds	-	-	-
Petty cash	-	-	-
Debt service	-	-	-
Encumbrances	4	1,132	16,827
Loans receivable	-	912	-
Capital projects	-	-	-
Unreserved reported in:			
Special Revenue Funds	(1,286)	(1,723)	-
Capital Projects Fund	-	-	(21,777)
	(1,282)	321	(4,950)
	$ 40,806	$ 912	$ 56

See independent auditors' report.

Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Debt Service Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ 1,006	$ 12,049	$ 13,055
-	225	-	-	-	230
-	-	-	-	-	40,343
-	-	260	132	-	855
-	-	-	-	-	51
-	-	101	-	-	1,013
51,607	-	-	-	-	51,607
-	-	-	-	-	-
$ 51,607	$ 225	$ 361	$ 1,138	$ 12,049	$ 107,154
$ -	$ 783	$ 1	$ 217	$ 9	$ 3,738
-	-	7	-	-	43,710
-	-	4	7	-	73
2,156	-	-	-	3,866	6,022
-	-	-	-	7,894	7,894
-	759	-	-	-	1,951
-	-	-	-	-	-
2,156	1,542	12	224	11,769	63,388
-	-	-	-	-	-
-	-	-	1,006	-	1,006
-	-	-	-	214	214
-	3,596	1,586	392	66	23,603
-	-	101	-	-	1,013
49,451	-	-	-	-	49,451
-	-	(1,338)	(484)	-	(4,831)
-	(4,913)	-	-	-	(26,690)
49,451	(1,317)	349	914	280	43,766
$ 51,607	$ 225	$ 361	$ 1,138	$ 12,049	$ 107,154

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

	Bridge and Public Building Fund	Community Development Fund	Capital Improvements Fund
Revenues			
Taxes	$ 42,068	$ -	$ -
Intergovernmental	734	3,883	67
Charges for services, net	-	-	-
Miscellaneous	1,582	156	19
Interest and investment	712	1	-
	45,096	4,040	86
Expenditures			
Current:			
General government	-	4,331	3,846
Public safety	-	-	-
Highway and roads	-	-	-
Health and welfare	-	8	-
Capital outlay	-	-	4,156
Debt service:			
Principal retirement	-	-	1,972
Interest and fiscal charges	-	-	326
	-	4,339	10,300
Excess (Deficiency) of Revenues over Expenditures	45,096	(299)	(10,214)
Other Financing Sources (Uses)			
Transfers in	-	3,285	22,235
Transfers out	(45,052)	-	(7,835)
	(45,052)	3,285	14,400
Net Changes in Fund Balances	44	2,986	4,186
Fund Balance - beginning of year, as previously reported	38,461	(1,775)	(26,718)
Prior Period Adjustments	(39,787)	(890)	17,582
Fund Balance - beginning of year, as restated	(1,326)	(2,665)	(9,136)
Fund Balance - end of year	$ (1,282)	$ 321	$ (4,950)

See independent auditors' report.

Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Debt Service Fund	Total Nonmajor Governmental Funds
$ -	$ -	$ -	$ -	$ -	$ 42,068
-	-	1,496	2,946	1,713	10,839
-	3,077	-	574	-	3,651
-	21	-	179	1	1,958
2,620	-	42	-	2,437	5,812
2,620	3,098	1,538	3,699	4,151	64,328
-	-	1,747	-	-	9,924
-	-	-	3,562	-	3,562
-	877	-	-	-	877
-	-	30	-	-	38
32,878	7,775	-	-	-	44,809
990	-	-	-	14,430	17,392
4,338	-	-	-	22,503	27,167
38,206	8,652	1,777	3,562	36,933	103,769
(35,586)	(5,554)	(239)	137	(32,782)	(39,441)
10,270	4,986	621	-	-	41,397
-	-	-	-	(11,022)	(63,909)
10,270	4,986	621	-	(11,022)	(22,512)
(25,316)	(568)	382	137	(43,804)	(61,953)
74,767	(5,153)	5,554	(123)	60,665	145,678
-	4,404	(5,587)	900	(16,581)	(39,959)
74,767	(749)	(33)	777	44,084	105,719
$ 49,451	$ (1,317)	$ 349	$ 914	$ 280	$ 43,766

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Current Assets				
Cash and investments	$ -	$ 69	$ 2,591	$ 2,660
Patient accounts receivable, net	-	1,513	-	1,513
Accounts receivable, net	79	-	295	374
Other receivables	-	-	303	303
Due to other governments	-	-	(1,300)	(1,300)
Inventories	-	78	-	78
Deferred charges - issuance costs	-	-	-	-
Total Current Assets	79	1,660	1,889	3,628
Noncurrent Assets				
Restricted assets	713	-	8,228	8,941
Advances due from (to) other funds	-	-	(19,243)	(19,243)
Deferred charges - issuance costs	114	-	51	165
Capital assets:				
Depreciable assets, net	30,738	8,846	4,220	43,804
Nondepreciable assets	8,115	9	14,549	22,673
	39,680	8,855	7,805	56,340
	$ 39,759	$ 10,515	$ 9,694	$ 59,968

See independent auditors' report.

LIABILITIES AND NET ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Current Liabilities				
Accounts payable	$ -	$ 628	$ -	$ 628
Accrued wages and benefits	4	292	-	296
Accrued interest	-	-	17	17
Estimated claims liability	-	374	-	374
Estimated liability for compensated absences	-	277	-	277
Warrants payable	-	-	1,285	1,285
Add: Unamortized premiums (discounts)	-	-	(4)	(4)
Less: Deferred loss on refunding	-	-	(30)	(30)
	-	-	1,251	1,251
Total Current Liabilities	4	1,571	1,268	2,843
Noncurrent Liabilities				
Warrants payable	-	-	4,570	4,570
Add: Unamortized premiums (discounts)	-	-	(18)	(18)
Less: Deferred loss on refunding	-	-	(136)	(136)
	-	-	4,416	4,416
Estimated liability for landfill closure and postclosure care costs	7,182	-	-	7,182
Estimated liability for compensated absences	-	201	-	201
Total Liabilities	7,186	1,772	5,684	14,642
Net Assets				
Invested in capital assets, net of related debt	38,967	8,855	(7,407)	40,415
Restricted for:				
Debt service	-	-	8,228	8,228
Closure and postclosure care	713	-	-	713
Unrestricted	(7,107)	(112)	3,189	(4,030)
	$ 32,573	$ 8,743	$ 4,010	$ 45,326

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Operating Revenues				
Charges for services, net	$ -	$ 9,781	$ -	$ 9,781
Other operating revenue	1,144	45	413	1,602
	1,144	9,826	413	11,383
Operating Expenses				
Salaries	-	6,005	286	6,291
Employee benefits and payroll taxes	-	2,001	18	2,019
Materials and supplies	-	1,481	-	1,481
Utilities	-	978	29	1,007
Outside services	-	2,910	131	3,041
Office expenses	-	73	162	235
Depreciation	1,890	293	239	2,422
Closure and postclosure care	1,000	-	-	1,000
Miscellaneous	3	492	38	533
	2,893	14,233	903	18,029
Operating Loss	(1,749)	(4,407)	(490)	(6,646)
Nonoperating Revenues (Expenses)				
Interest expense, net	(752)	-	(227)	(979)
Interest revenue	39	-	271	310
Amortization of warrant related costs	(9)	-	(99)	(108)
Gain on sale or retirement of capital assets	-	-	2,010	2,010
	(722)	-	1,955	1,233
Operating Transfers				
Transfers in	752	4,228	-	4,980
Transfers out	(1,843)	-	-	(1,843)
	(1,091)	4,228	-	3,137
Change in Net Assets	(3,562)	(179)	1,465	(2,276)
Net Assets - beginning of year, as previously reported	21,735	3,565	2,545	27,845
Prior Period Adjustments	14,400	5,357	-	19,757
Net Assets - beginning of year, restated	36,135	8,922	2,545	47,602
Net Assets - end of year	$ 32,573	$ 8,743	$ 4,010	$ 45,326

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Cash Flows from Operating Activities				
Cash received from services	$ -	$ 9,764	$ 131	$ 9,895
Cash payments to employees	-	(8,005)	(305)	(8,310)
Cash payments for goods and services	-	(5,307)	(321)	(5,628)
Other receipts and payments, net	1,484	(393)	(407)	684
Net Cash Provided (Used) by Operating Activities	1,484	(3,941)	(902)	(3,359)
Cash Flows from Noncapital Financing Activities				
Operating transfers in	752	4,228	-	4,980
Operating transfers out	(1,843)	-	-	(1,843)
Net Cash Provided (Used) by Noncapital Financing Activities	(1,091)	4,228	-	3,137
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	-	(318)	(544)	(862)
Sale of capital assets	-	-	4,506	4,506
Interest paid	(752)	-	(230)	(982)
Principal payments on warrants	-	-	(1,245)	(1,245)
Net Cash Provided (Used) by Capital and Related Financing Activities	(752)	(318)	2,487	1,417
Cash Flows from Investing Activities				
Interest received	39	-	271	310
Miscellaneous	2	1	(942)	(939)
Net Cash Provided (Used) by Investing Activities	41	1	(671)	(629)
Increase (Decrease) in Cash and Investments	(318)	(30)	914	566
Cash and Investments - beginning of year	1,031	99	1,677	2,807
Cash and Investments - end of year	$ 713	$ 69	$ 2,591	$ 3,373
Displayed As				
Cash and investments	$ -	$ 69	$ 2,591	$ 2,660
Restricted assets - noncurrent cash	713	-	-	713
	$ 713	$ 69	$ 2,591	$ 3,373

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2008
(IN THOUSANDS)
(Continued)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (1,749)	$ (4,407)	$ (490)	$ (6,646)
Adjustments to reconcile operating loss to net cash provided by operating activities:				
Depreciation expense	1,890	293	239	2,422
Provision for bad debts	-	663	-	663
Change in patient accounts receivable	-	(679)	-	(679)
Change in accounts receivable	-	-	(282)	(282)
Change in other receivables	-	-	(276)	(276)
Change in advances due (to) from other funds	-	-	(93)	(93)
Change in inventories	-	13	-	13
Change in accounts payable	-	123	-	123
Change in accrued wages and benefits	-	27	-	27
Change in estimated claims liability	-	52	-	52
Change in estimated liability for compensated absences	-	(26)	-	(26)
Change in liability for landfill closure and postclosure care costs	1,343	-	-	1,343
	3,233	466	(412)	3,287
Net Cash Provided (Used) by Operating Activities	$ 1,484	$ (3,941)	$ (902)	$ (3,359)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain on sale or retirement of capital assets	$ -	$ -	$ 2,010	$ 2,010

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF FIDUCIARY NET ASSETS -
AGENCY FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

ASSETS	Storm Water Management Authority Fund	City of Birmingham Revolving Loan Fund	Total Agency Funds
Current Assets			
Cash and investments	$ 1,979	$ 627	$ 2,606
Loans receivable, net	-	306	306
Prepaid expenses	2	-	2
Total Current Assets	1,981	933	2,914
Depreciable assets, net	125	-	125
	$ 2,106	$ 933	$ 3,039
LIABILITIES			
Accounts payable and accrued expenses	$ 361	$ -	$ 361
Due to external organizations	1,745	-	1,745
Due to other governments	-	933	933
	$ 2,106	$ 933	$ 3,039

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES - AGENCY FUNDS
SEPTEMBER 30, 2008
(IN THOUSANDS)

	Balance October 1, 2007	Additions	Deductions	Balance September 30, 2008
Storm Water Management Authority Fund				
Assets				
Cash and investments	$ 2,031	$ -	$ (52)	$ 1,979
Prepaid expenses	-	2	-	2
Depreciable assets, net	211	-	(86)	125
	$ 2,242	$ 2	$ (138)	$ 2,106
Liabilities				
Accounts payable and accrued expenses	$ 81	$ 280	$ -	$ 361
Due to external organizations	2,161	-	(416)	1,745
	$ 2,242	$ 280	$ (416)	$ 2,106
City of Birmingham Revolving Loan Fund				
Assets				
Cash and investments	$ 776	$ 113	$ (262)	$ 627
Loans receivable, net	102	260	(56)	306
	$ 878	$ 373	$ (318)	$ 933
Liabilities				
Due to other governments	$ 878	$ 373	$ (318)	$ 933
Agency Fund Totals				
Assets				
Cash and investments	$ 2,807	$ 113	$ (314)	$ 2,606
Loans receivable, net	102	260	(56)	306
Prepaid expenses	-	2	-	2
Depreciable assets, net	211	-	(86)	125
	$ 3,120	$ 375	$ (456)	$ 3,039
Liabilities				
Accounts payable and accrued expenses	$ 81	$ 280	$ -	$ 361
Due to external organizations	2,161	-	(416)	1,745
Due to other governments	878	373	(318)	933
	$ 3,120	$ 653	$ (734)	$ 3,039

See independent auditors' report.

ADDITIONAL INFORMATION

JEFFERSON COUNTY COMMISSION
COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL
SEPTEMBER 30, 2008

Commission Members As of January 31, 2011			Term Expires
Hon. David Carrington	President	Suite 230 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. George T. Bowman	Member	Suite 240 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. T. Joe Knight	Member	Suite 220 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. James A. Stephens	Member	Suite 210 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. Sandra Little Brown	Member	Suite 250 Jefferson County Courthouse Birmingham, AL 35263	2014

Administrative Personnel As of January 31, 2011		
Jeffery T. Hager	Chief Financial Officer	Suite 810 Jefferson County Courthouse Birmingham, AL 35263
Jeffrey M. Sewell	County Attorney	Suite 280 Jefferson County Courthouse Birmingham, AL 35263