

**JEFFERSON COUNTY COMMISSION**  
**AUDITED FINANCIAL STATEMENTS**  
**SEPTEMBER 30, 2009**

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**INDEPENDENT AUDITORS' REPORT**

August 16, 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, 2009, 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.

To the Commissioners  
Jefferson County Commission  
August 16, 2011

As discussed in Note E, 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. As discussed in Note N, 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, 2009, 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, 2009, and subsequent to September 30, 2009, the Commission has received Notices and Events of Default from the Trustee and certain banks for certain debt obligations and has been unable to meet its accelerated debt service obligations as they become due. While the terms of the outstanding warrants payable may ultimately be restructured with the creditors, under the current Events of Default and potential cross-defaults, the Trustees may declare the warrants due and payable on demand. Therefore, the outstanding warrants payable and related accounts have been classified as current liabilities in the accompanying financial statements. 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, 2009, court rulings resulted in the effective repeal of certain occupational taxes and business license fees, which have historically comprised significant revenues to the Commission. It is not possible, at this time, to predict the ultimate outcome resulting from the loss of these revenues.

To the Commissioners  
Jefferson County Commission  
August 16, 2011

As discussed in Note X, currently, representatives of the Commission and the State of Alabama are negotiating with creditors of the Commission to restructure its outstanding obligations. The outcome of the negotiations is unknown at this time. However, if the negotiations are unsuccessful, a possible outcome would be for the Commission to file for protection under Chapter 9 of the United States Bankruptcy Code. Subsequent to such a filing, the obligations in the accompanying financial statements may require adjustment or reclassification.

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.

The budgetary comparison information on pages 149 through 153 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 are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the 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, 2009**  
**(IN THOUSANDS)**

ASSETS	Governmental Activities	Business-Type Activities	Total
<b>Current Assets</b>			
Cash and investments	\$ 14,845	\$ 13,142	\$ 27,987
Patient accounts receivable, net	-	9,773	9,773
Estimated third-party payor settlements	-	371	371
Accounts receivable, net	9,880	21,471	31,351
Loans receivable, net	661	-	661
Taxes receivable, net	130,954	5,535	136,489
Other receivables	-	1,192	1,192
Due from (to) other governments	5,740	(87)	5,653
Inventories	3,000	1,945	4,945
Prepaid expenses	55	1,263	1,318
Deferred charges - issuance costs	13,731	51,639	65,370
	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	178,866	106,244	285,110
<b>Noncurrent Assets</b>			
Deferred charges - issuance costs	-	17	17
Advances due from (to) other funds	33,585	(33,585)	-
Loans receivable, net	24,125	-	24,125
Restricted assets	201,559	200,439	401,998
Assets internally designated for capital improvements or redemption of warrants	-	52,540	52,540
Capital assets:			
Depreciable assets, net	251,027	3,080,916	3,331,943
Nondepreciable assets	100,199	99,788	199,987
	<hr/>	<hr/>	<hr/>
	610,495	3,400,115	4,010,610
	<hr/>	<hr/>	<hr/>
	\$ 789,361	\$ 3,506,359	\$ 4,295,720
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See notes to financial statements.

<b>LIABILITIES AND NET ASSETS</b>	<b>Governmental Activities</b>	<b>Business-Type Activities</b>	<b>Total</b>
<b>Current Liabilities</b>			
Accounts payable	\$ 34,792	\$ 12,040	\$ 46,832
Deposits payable	1,459	-	1,459
Deferred/unearned revenue	114,241	5,746	119,987
Accrued wages and benefits	5,824	2,666	8,490
Accrued interest	14,227	69,129	83,356
Swap termination liability	7,894	108,818	116,712
Retainage payable	229	56	285
Estimated claims liability	6,347	3,298	9,645
Noncurrent liabilities - portion due or payable within one year:			
Capital lease obligations	2,177	385	2,562
Estimated liability for compensated absences	6,908	2,853	9,761
Warrants payable	1,190,200	3,182,618	4,372,818
Add: Unamortized premiums	37,372	5,613	42,985
Less: Deferred loss on refunding	(128)	(290,567)	(290,695)
	<u>1,227,444</u>	<u>2,897,664</u>	<u>4,125,108</u>
<b>Total Current Liabilities</b>	1,421,542	3,102,655	4,524,197
<b>Noncurrent Liabilities</b>			
Accrued arbitrage rebates	31,188	63	31,251
Capital lease obligations	2,362	159	2,521
Estimated liability for landfill closure and postclosure care costs	-	8,180	8,180
Estimated liability for compensated absences	10,935	3,717	14,652
Warrants payable	-	3,240	3,240
Add: Unamortized premiums (discounts)	-	(7)	(7)
Less: Deferred loss on refunding	-	(55)	(55)
	<u>-</u>	<u>3,178</u>	<u>3,178</u>
<b>Total Liabilities</b>	<u>1,466,027</u>	<u>3,117,952</u>	<u>4,583,979</u>
<b>Net Assets (Deficit)</b>			
Investment in capital assets, net of related debt	291,881	463,076	754,957
Restricted for:			
Debt service or capital improvements	76,758	27,294	104,052
Debt service	96,002	21,445	117,447
Closure and postclosure care	-	1,126	1,126
Other purposes	115,132	1,625	116,757
Unrestricted	(1,256,439)	(126,159)	(1,382,598)
	<u>\$ (676,666)</u>	<u>\$ 388,407</u>	<u>\$ (288,259)</u>



**JEFFERSON COUNTY COMMISSION  
STATEMENT OF ACTIVITIES  
FOR THE YEAR ENDED SEPTEMBER 30, 2009  
(IN THOUSANDS)**

	Expenses	Indirect Expense Allocation	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets Primary Government		Total
			Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
<b>Primary Government</b>							
Governmental Activities:							
General government	\$ 169,724	\$ (10,308)	\$ 24,211	\$ 14,228	\$ (120,977)	\$ -	\$ (120,977)
Public safety	73,204	117	3,184	1,630	(68,507)	-	(68,507)
Highways and roads	28,477	8	1,021	-	(27,464)	-	(27,464)
Health and welfare	1,338	420	-	650	(1,108)	-	(1,108)
Environmental services	17	-	-	-	(17)	-	(17)
Culture and recreation	5,286	-	-	-	(5,286)	-	(5,286)
Education - other	3	-	-	-	(3)	-	(3)
Interest and fiscal charges	49,033	-	-	-	(49,033)	-	(49,033)
<b>Total Governmental Activities</b>	<b>327,082</b>	<b>(9,763)</b>	<b>28,416</b>	<b>16,508</b>	<b>(272,395)</b>	<b>-</b>	<b>(272,395)</b>
Business-Type Activities:							
Cooper Green Hospital	87,926	2,026	35,892	-	-	(54,060)	(54,060)
Economic and Industrial Development Authority	1,269	-	-	-	-	(1,269)	(1,269)
Nursing Home operations	12,393	1,723	10,183	-	-	(3,933)	(3,933)
Landfill operations	3,284	773	-	-	-	(4,057)	(4,057)
Sanitary operations	404,220	5,241	160,054	-	-	(249,407)	(249,407)
<b>Total Business-Type Activities</b>	<b>509,092</b>	<b>9,763</b>	<b>206,129</b>	<b>-</b>	<b>-</b>	<b>(312,726)</b>	<b>(312,726)</b>
<b>Total Primary Government</b>	<b>\$ 836,174</b>	<b>\$ -</b>	<b>\$ 234,545</b>	<b>\$ 16,508</b>	<b>(272,395)</b>	<b>(312,726)</b>	<b>(585,121)</b>
<b>General Revenues</b>							
Taxes:							
Property taxes					112,989	5,969	118,958
Sales tax					151,969	-	151,969
Other taxes					34,411	-	34,411
Licenses and permits					31,246	-	31,246
Unrestricted investment earnings					6,194	3,833	10,027
Miscellaneous					9,209	11,685	20,894
Transfers					(50,976)	50,976	-
<b>Total General Revenues and Transfers</b>					<b>295,042</b>	<b>72,463</b>	<b>367,505</b>
<b>Change in Net Assets</b>					<b>22,647</b>	<b>(240,263)</b>	<b>(217,616)</b>
<b>Net Assets - beginning of year, as previously reported</b>					<b>(715,378)</b>	<b>646,278</b>	<b>(69,100)</b>
<b>Prior Period Adjustments</b>					<b>16,065</b>	<b>(17,608)</b>	<b>(1,543)</b>
<b>Net Assets (Deficit) - beginning of year, as restated</b>					<b>(699,313)</b>	<b>628,670</b>	<b>(70,643)</b>
<b>Net Assets (Deficit) - end of year</b>					<b>\$ (676,666)</b>	<b>\$ 388,407</b>	<b>\$ (288,259)</b>

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION  
BALANCE SHEET -  
GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009  
(IN THOUSANDS)**

<b>ASSETS</b>	<b>General Fund</b>	<b>Limited Obligation School Fund</b>	<b>Indigent Care Fund</b>	<b>Bridge and Public Building Fund</b>	<b>Debt Service Fund</b>	<b>Nonmajor Governmental Funds</b>	<b>Total Governmental Funds</b>
Cash and investments	\$ 9,720	\$ -	\$ -	\$ -	\$ -	\$ 5,125	\$ 14,845
Accounts receivable, net	9,845	-	-	-	-	35	9,880
Taxes receivable, net	72,307	12,527	5,795	40,325	-	-	130,954
Due from (to) other governments	4,594	-	430	295	-	421	5,740
Inventories	3,000	-	-	-	-	-	3,000
Prepaid expenses	3	-	-	-	-	52	55
Loans receivable, net	-	-	-	-	-	661	661
Restricted assets	18,667	144,632	1,845	-	-	36,415	201,559
Advances due from (to) other funds	17,121	(1,638)	-	-	18,102	-	33,585
	<u>\$ 135,257</u>	<u>\$ 155,521</u>	<u>\$ 8,070</u>	<u>\$ 40,620</u>	<u>\$ 18,102</u>	<u>\$ 42,709</u>	<u>\$ 400,279</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 31,710	\$ 77	\$ -	\$ -	\$ -	\$ 3,005	\$ 34,792
Deposits payable	1,459	-	-	-	-	-	1,459
Deferred/unearned revenue	72,440	-	-	41,801	-	-	114,241
Accrued wages and benefits	5,746	-	-	-	-	78	5,824
Accrued interest	-	835	-	-	3,631	2,131	6,597
Swap termination liability	-	-	-	-	7,894	-	7,894
Retainage payable	229	-	-	-	-	-	229
Estimated liability for compensated absence	6,908	-	-	-	-	-	6,908
Estimated claims liability	6,347	-	-	-	-	-	6,347
<b>Total Liabilities</b>	<b>124,839</b>	<b>912</b>	<b>-</b>	<b>41,801</b>	<b>11,525</b>	<b>5,214</b>	<b>184,291</b>
<b>Fund Balances</b>							
<b>Reserved for:</b>							
Inventories	3,000	-	-	-	-	-	3,000
Advances due from other funds	17,121	-	-	-	18,102	-	35,223
Petty cash	100	-	-	-	-	-	100
Mapping and reappraisal	7,857	-	-	-	-	-	7,857
E911	1,305	-	-	-	-	-	1,305
Cooper Green Hospital Foundation	-	-	1,845	-	-	-	1,845
Debt service	-	96,002	-	-	-	-	96,002
Encumbrances	12,800	7	-	4	66	33,594	46,471
Loans receivable	-	-	-	-	-	661	661
Capital projects	-	48,630	-	-	-	28,128	76,758
Other purposes	18,670	-	-	-	-	-	18,670
<b>Unreserved reported in:</b>							
General Fund	(50,435)	-	-	-	(11,591)	-	(62,026)
Special Revenue Funds	-	9,970	6,225	(1,185)	-	(3,052)	11,958
Capital Projects Fund	-	-	-	-	-	(21,836)	(21,836)
	<u>10,418</u>	<u>154,609</u>	<u>8,070</u>	<u>(1,181)</u>	<u>6,577</u>	<u>37,495</u>	<u>215,988</u>
	<u>\$ 135,257</u>	<u>\$ 155,521</u>	<u>\$ 8,070</u>	<u>\$ 40,620</u>	<u>\$ 18,102</u>	<u>\$ 42,709</u>	<u>\$ 400,279</u>

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION  
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS  
TO THE STATEMENT OF NET ASSETS  
SEPTEMBER 30, 2009  
(IN THOUSANDS)**

**Total Fund Balances - Governmental Funds** \$ 215,988

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. 351,226

Loans receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds. 24,125

Deferred loss on early retirement of debt is not reported in the funds. 128

Deferred amounts related to premiums on long-term liabilities are not reported in the funds. (37,372)

Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds. 13,731

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	(1,190,200)	
Capital lease obligations	(4,539)	
Accrued arbitrage rebates	(31,188)	
Accrued interest	(7,630)	
Estimated liability for compensated absences	(10,935)	
Total long-term liabilities	(1,244,492)	(1,244,492)

**Total Net Assets (Deficit) - Governmental Activities** \$ (676,666)

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, 2009**  
**(IN THOUSANDS)**

	General Fund	Limited Obligation School Fund	Indigent Care Fund	Bridge and Public Building Fund	Debt Service Fund	Nonmajor Governmental Funds	Total Governmental Funds
<b>Revenues</b>							
Taxes	\$ 103,108	\$ 81,578	\$ 40,370	\$ 43,380	\$ -	\$ -	\$ 268,436
Licenses and permits	31,246	-	-	-	-	-	31,246
Intergovernmental	38,859	-	-	740	2,875	4,967	47,441
Charges for services, net	26,981	-	-	-	-	1,435	28,416
Miscellaneous	4,641	-	77	1,641	-	3,427	9,786
Interest and investment income	4,605	568	3	151	5	862	6,194
	<u>209,440</u>	<u>82,146</u>	<u>40,450</u>	<u>45,912</u>	<u>2,880</u>	<u>10,691</u>	<u>391,519</u>
<b>Expenditures</b>							
Current:							
General government	141,708	170	-	2	4	6,962	148,846
Public safety	69,169	-	-	-	-	3,048	72,217
Highway and roads	22,860	-	-	-	-	134	22,994
Health and welfare	-	-	-	-	-	1,338	1,338
Environmental services	-	-	-	-	-	-	-
Culture and recreation	5,286	-	-	-	-	-	5,286
Education - other	3	-	-	-	-	-	3
Capital outlay	2,166	-	-	-	-	18,076	20,242
Indirect expenses	(10,399)	-	7	8	91	530	(9,763)
Debt service:							
Principal retirement	53	45,515	-	-	30,135	3,084	78,787
Interest and fiscal charges	37	44,087	-	-	10,677	4,536	59,337
	<u>230,883</u>	<u>89,772</u>	<u>7</u>	<u>10</u>	<u>40,907</u>	<u>37,708</u>	<u>399,287</u>
<b>Excess (Deficiency) of Revenues over Expenditures</b>	(21,443)	(7,626)	40,443	45,902	(38,027)	(27,017)	(7,768)
<b>Other Financing Sources (Uses)</b>							
Sale of capital assets	29	-	-	-	-	-	29
Transfers in	1,361	-	-	-	27,006	24,652	53,019
Transfers out	(11,615)	-	(41,435)	(45,801)	-	(5,144)	(103,995)
	<u>(10,225)</u>	<u>-</u>	<u>(41,435)</u>	<u>(45,801)</u>	<u>27,006</u>	<u>19,508</u>	<u>(50,947)</u>
<b>Net Changes in Fund Balances</b>	(31,668)	(7,626)	(992)	101	(11,021)	(7,509)	(58,715)
<b>Fund Balance - beginning of year, as previously reported</b>	42,086	162,235	9,062	(1,282)	280	44,768	257,149
<b>Prior Period Adjustments</b>	-	-	-	-	17,318	236	17,554
<b>Fund Balance - beginning of year, as restated</b>	<u>42,086</u>	<u>162,235</u>	<u>9,062</u>	<u>(1,282)</u>	<u>17,598</u>	<u>45,004</u>	<u>274,703</u>
<b>Fund Balance - end of year</b>	<u>\$ 10,418</u>	<u>\$ 154,609</u>	<u>\$ 8,070</u>	<u>\$ (1,181)</u>	<u>\$ 6,577</u>	<u>\$ 37,495</u>	<u>\$ 215,988</u>

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, 2009  
(IN THOUSANDS)**

**Net Changes in Fund Balances - Governmental Funds** \$ (58,715)

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 (\$20,242,000) exceeded depreciation (\$25,957,000) in the current period. (5,715)

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 (652)

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	2,601	
Amortization of bond issuance costs	(962)	
Amortization of deferred loss on refunding	(256)	
Arbitrage rebates	8,535	
Repayments of principal - capital lease obligations	2,102	
Repayments of principal - warrants payable	76,685	88,705

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 386  
Increase in long-term portion of compensated absences (1,408) (1,022)

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. 46

**Change in Net Assets - Governmental Activities** \$ 22,647

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION  
STATEMENT OF NET ASSETS -  
PROPRIETARY FUNDS  
SEPTEMBER 30, 2009  
(IN THOUSANDS)**

ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
<b>Current Assets</b>				
Cash and investments	\$ 278	\$ 10,022	\$ 2,842	\$ 13,142
Patient accounts receivable, net	8,840	-	933	9,773
Accounts receivable, net	-	21,293	178	21,471
Other receivables	1,188	-	4	1,192
Estimated third-party payor settlements	371	-	-	371
Taxes receivable, net	-	5,535	-	5,535
Due from (to) other governments	(248)	1,461	(1,300)	(87)
Inventories	1,450	450	45	1,945
Prepaid expenses	1,203	-	60	1,263
Deferred charges - issuance costs	-	51,534	105	51,639
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	13,082	90,295	2,867	106,244
<b>Noncurrent Assets</b>				
Restricted assets	1,625	194,377	4,437	200,439
Assets internally designated for capital improvements or redemption of warrants	-	52,540	-	52,540
Advances due from (to) other funds	-	-	(33,585)	(33,585)
Deferred charges - issuance costs	-	-	17	17
Capital assets:				
Depreciable assets, net	39,131	2,999,831	41,954	3,080,916
Nondepreciable assets	1,409	76,964	21,415	99,788
	<hr/>	<hr/>	<hr/>	<hr/>
	42,165	3,323,712	34,238	3,400,115
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 55,247	\$ 3,414,007	\$ 37,105	\$ 3,506,359
	<hr/>	<hr/>	<hr/>	<hr/>

See notes to financial statements.

LIABILITIES AND NET ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
<b>Current Liabilities</b>				
Accounts payable	\$ 6,316	\$ 4,913	\$ 811	\$ 12,040
Accrued wages and benefits	1,412	1,001	253	2,666
Accrued interest	-	69,122	7	69,129
Swap termination liability	-	108,818	-	108,818
Retainage payable	-	56	-	56
Deferred/unearned revenue	-	5,746	-	5,746
Estimated claims liability	1,629	1,310	359	3,298
Estimated liability for compensated absences	1,156	1,468	229	2,853
Current portion of capital lease obligations	385	-	-	385
Warrants payable	-	3,182,618	-	3,182,618
Add: Unamortized premiums (discounts)	-	5,613	-	5,613
Less: Deferred loss on refunding	-	(290,567)	-	(290,567)
	<u>-</u>	<u>2,897,664</u>	<u>-</u>	<u>2,897,664</u>
<b>Total Current Liabilities</b>	10,898	3,090,098	1,659	3,102,655
<b>Noncurrent Liabilities</b>				
Warrants payable	-	-	3,240	3,240
Add: Unamortized premiums (discounts)	-	-	(7)	(7)
Less: Deferred loss on refunding	-	-	(55)	(55)
	<u>-</u>	<u>-</u>	<u>3,178</u>	<u>3,178</u>
Capital lease obligations	159	-	-	159
Accrued arbitrage rebates	-	63	-	63
Estimated liability for landfill closure and postclosure care costs	-	-	8,180	8,180
Estimated liability for compensated absences	1,581	1,883	253	3,717
	<u>12,638</u>	<u>3,092,044</u>	<u>13,270</u>	<u>3,117,952</u>
<b>Total Liabilities</b>	12,638	3,092,044	13,270	3,117,952
<b>Net Assets</b>				
Invested in capital assets, net of related debt	39,996	379,557	43,523	463,076
Restricted for:				
Debt service or capital improvements	-	27,294	-	27,294
Debt service	-	18,134	3,311	21,445
Closure and postclosure care	-	-	1,126	1,126
Other purposes	1,625	-	-	1,625
Unrestricted	988	(103,022)	(24,125)	(126,159)
	<u>\$ 42,609</u>	<u>\$ 321,963</u>	<u>\$ 23,835</u>	<u>\$ 388,407</u>

**JEFFERSON COUNTY COMMISSION**  
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -**  
**PROPRIETARY FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**  
**(IN THOUSANDS)**

	<b>Cooper Green Hospital Fund</b>	<b>Sanitary Operations Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
<b>Operating Revenues</b>				
Taxes	\$ -	\$ 5,969	\$ -	\$ 5,969
Intergovernmental	-	102	-	102
Charges for services, net	35,892	159,952	10,183	206,027
Other operating revenue	7,536	250	1,658	9,444
	<u>43,428</u>	<u>166,273</u>	<u>11,841</u>	<u>221,542</u>
<b>Operating Expenses</b>				
Salaries	34,227	20,590	5,575	60,392
Employee benefits and payroll taxes	7,267	7,260	1,806	16,333
Materials and supplies	13,927	1,502	1,265	16,694
Utilities	1,787	9,511	1,006	12,304
Outside services	9,421	13,026	2,202	24,649
Services from other hospitals	4,072	-	-	4,072
Jefferson Clinic	13,093	-	-	13,093
Office expenses	577	638	231	1,446
Depreciation	3,042	131,971	2,567	137,580
Closure and postclosure care	-	-	585	585
Indirect expenses	2,026	5,241	2,496	9,763
Miscellaneous	471	172	464	1,107
	<u>89,910</u>	<u>189,911</u>	<u>18,197</u>	<u>298,018</u>
<b>Operating Loss</b>	(46,482)	(23,638)	(6,356)	(76,476)
<b>Nonoperating Revenues (Expenses)</b>				
Interest expense, net	(42)	(206,194)	(1,110)	(207,346)
Interest revenue	111	3,706	16	3,833
Grant income	1,627	-	-	1,627
Amortization of warrant related costs	-	(13,356)	(135)	(13,491)
(Loss) gain on sale or retirement of capital assets	(1)	(16)	631	614
	<u>1,695</u>	<u>(215,860)</u>	<u>(598)</u>	<u>(214,763)</u>
<b>Operating Transfers</b>				
Transfers in	48,195	-	2,810	51,005
Transfers out	-	-	(29)	(29)
	<u>48,195</u>	<u>-</u>	<u>2,781</u>	<u>50,976</u>
<b>Change in Net Assets</b>	3,408	(239,498)	(4,173)	(240,263)
<b>Net Assets - beginning of year, as previously reported</b>	39,491	561,461	45,326	646,278
<b>Prior Period Adjustments</b>	(290)	-	(17,318)	(17,608)
<b>Net Assets - beginning of year, as restated</b>	<u>39,201</u>	<u>561,461</u>	<u>28,008</u>	<u>628,670</u>
<b>Net Assets - end of year</b>	<u>\$ 42,609</u>	<u>\$ 321,963</u>	<u>\$ 23,835</u>	<u>\$ 388,407</u>

See notes to financial statements.



**JEFFERSON COUNTY COMMISSION  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009  
(IN THOUSANDS)**

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
<b>Cash Flows from Operating Activities</b>				
Cash received from services	\$ 31,467	\$ 159,592	\$ 11,318	\$ 202,377
Cash payments to employees	(41,382)	(27,857)	(7,419)	(76,658)
Cash payments for goods and services	(43,959)	(32,100)	(7,044)	(83,103)
Other receipts and payments, net	5,114	6,274	(1,441)	9,947
<b>Net Cash Provided (Used) by Operating Activities</b>	(48,760)	105,909	(4,586)	52,563
<b>Cash Flows from Noncapital Financing Activities</b>				
Grant income	1,627	-	-	1,627
Operating transfers in	48,195	-	2,810	51,005
Operating transfers out	-	-	(29)	(29)
<b>Net Cash Provided by Noncapital Financing Activities</b>	49,822	-	2,781	52,603
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition of capital assets	(547)	(11,878)	(323)	(12,748)
Repayment of capital lease obligations	(450)	-	-	(450)
Sale of capital assets	-	-	1,515	1,515
Interest paid	(42)	(89,622)	(1,120)	(90,784)
Principal payments on warrants	-	(10,626)	(2,615)	(13,241)
Retainage paid	-	(2,150)	-	(2,150)
<b>Net Cash Used by Capital and Related Financing Activities</b>	(1,039)	(114,276)	(2,543)	(117,858)
<b>Cash Flows from Investing Activities</b>				
Interest received	111	3,706	16	3,833
Miscellaneous	-	98	10	108
<b>Net Cash Provided by Investing Activities</b>	111	3,804	26	3,941
<b>Change in Cash and Investments</b>	134	(4,563)	(4,322)	(8,751)
<b>Cash and Investments - beginning of year</b>	1,769	261,502	11,601	274,872
<b>Cash and Investments - end of year</b>	<u>\$ 1,903</u>	<u>\$ 256,939</u>	<u>\$ 7,279</u>	<u>\$ 266,121</u>
<b>Displayed As</b>				
Cash and investments	\$ 278	\$ 10,022	\$ 2,842	\$ 13,142
Restricted assets - noncurrent cash and investments	1,625	194,377	4,437	200,439
Assets internally designated for capital improvements or redemption of warrants - noncurrent cash	-	52,540	-	52,540
	<u>\$ 1,903</u>	<u>\$ 256,939</u>	<u>\$ 7,279</u>	<u>\$ 266,121</u>

**JEFFERSON COUNTY COMMISSION  
STATEMENT OF CASH FLOWS -  
PROPRIETARY FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009  
(IN THOUSANDS)  
(Continued)**

	<b>Cooper Green Hospital Fund</b>	<b>Sanitary Operations Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Total</b>
<b>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities</b>				
Operating loss	\$ (46,482)	\$ (23,638)	\$ (6,356)	\$ (76,476)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	3,042	131,971	2,567	137,580
Provision for bad debts	14,238	1,938	343	16,519
Change in patient accounts receivable	(18,755)	-	237	(18,518)
Change in accounts receivable	-	(2,052)	196	(1,856)
Change in other receivables	(696)	-	303	(393)
Change in estimated third-party payor settlements	92	-	-	92
Change in taxes receivable, net	-	(30)	-	(30)
Change in due from (to) other governments	-	(246)	-	(246)
Change in inventories	(168)	8	33	(127)
Change in prepaid expenses	(1,151)	4	(60)	(1,207)
Change in advances due from (to) other funds	(1,726)	-	(2,976)	(4,702)
Change in accounts payable	2,658	(2,022)	183	819
Change in accrued wages and benefits	6	33	(43)	(4)
Change in deferred/unearned revenue	-	(17)	-	(17)
Change in estimated claims liability	77	77	(15)	139
Change in estimated liability for compensated absences	105	(117)	4	(8)
Change in estimated liability for landfill closure and postclosure care costs	-	-	998	998
	<u>(2,278)</u>	<u>129,547</u>	<u>1,770</u>	<u>129,039</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ (48,760)</u>	<u>\$ 105,909</u>	<u>\$ (4,586)</u>	<u>\$ 52,563</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
(Loss) gain on sale or retirement of capital assets	<u>\$ (1)</u>	<u>\$ (16)</u>	<u>\$ 631</u>	<u>\$ 614</u>

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION  
STATEMENT OF FIDUCIARY NET ASSETS -  
AGENCY FUNDS  
SEPTEMBER 30, 2009  
(IN THOUSANDS)**

<b>ASSETS</b>	<b>Agency Funds</b>
<b>Current Assets</b>	
Cash and investments	\$ 1,567
Loans receivable, net	392
	1,959
<b>Total Current Assets</b>	1,959
Depreciable assets, net	81
	\$ 2,040
<b>LIABILITIES</b>	
Accounts payable and accrued expenses	\$ 377
Due to external organizations	570
Due to other governments	1,093
	\$ 2,040

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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 capitalized certain donated capital assets or recognized a liability for the estimated present value of costs for the other postemployment benefits plan or included related current disclosures 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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. During 2009, indirect expenses were allocated to the various functions using different bases, as deemed appropriate for the individual expense.

***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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

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

Other nonmajor governmental funds are as follows:

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

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

	<b>Enterprise Funds</b>
Patient receivables	\$ 29,570,000
Allowance accounts	<u>19,797,000</u>
Net patient receivables	<u><u>\$ 9,773,000</u></u>

Allowances for uncollectible accounts on accounts receivable totaled \$13,910,000 at September 30, 2009.

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) 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 \$23,197,000 (net of an allowance of \$6,432,000) at September 30, 2009.

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 \$1,394,000 at September 30, 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009, the balance of these loans receivable for the City of Birmingham totaled \$392,000, 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 \$195,000 (net of an allowance of \$153,000) at September 30, 2009.

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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:

<b>Item</b>	<b>Capitalization Threshold</b>	<b>Estimated Useful Life</b>
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

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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 2009 amounted to \$4,193,000.

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, 2009.

***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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

***Warrants Payable***

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 agreements with certain Liquidity Providers, 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued**

***Derivative Instruments/Interest Rate Swap Agreements***

The Commission entered into several interest rate swap agreements in prior years 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. However, the Commission has defaulted on certain payments under the interest rate swap agreements, and all such agreements have been terminated as of September 30, 2009. As a result, the estimated termination fees (which represent the estimated fair value at the termination date) plus any related accrued interest on all unpaid termination fees have been accrued and are included as a liability in the accompanying financial statements. See Note K for a discussion of the interest rate swap agreements and the related fair values at the balance sheet date.

***Compensated Absences***

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

**Vacation Leave**

<b>Length of Service</b>	<b>Vacation Leave Earned (Per Month)</b>
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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued**

**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.

**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, 2009, the liability for accrued vacation and compensatory leave included in the government-wide statement of net assets is approximately \$15,602,000, of which \$11,386,000 is reported in the government activities and \$4,216,000 is reported in the business-type activities. Of this amount, an estimated \$9,353,000 is payable within a year.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES -  
Continued**

As of September 30, 2009, the liability for accrued sick leave included in the government-wide statement of net assets is approximately \$8,811,000. Of this amount, \$6,457,000 is reported in the government activities and \$2,354,000 is reported in the business-type activities. Due and payable within one year of September 30, 2009, is approximately \$408,000.

***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.

***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 August 16, 2011, the date the financial statements were available to be issued.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

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.

Budget and actual comparisons for the General Fund, Indigent Care Fund, Bridge and Public Building Fund, and Debt Service Fund are presented in the required supplementary information section.

**Deficit Fund Balances/Net Assets of Individual Funds**

At September 30, 2009, the following funds had a deficit fund balance:

	<b>(In Thousands) Deficit</b>
Bridge and Public Building Fund	\$ 1,181
Capital Improvements Fund	965
Road Construction Fund	448

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2008, as previously reported	\$ (715,378)	\$ 646,278	\$ (69,100)
Record loans receivable not previously recorded	236	-	236
Correct interfund receivables and payables	17,318	(17,318)	-
Record additional depreciation expense	(262)	-	(262)
Assets improperly capitalized	(1,227)	(290)	(1,517)
Net assets, September 30, 2008, as restated	<u>\$ (699,313)</u>	<u>\$ 628,670</u>	<u>\$ (70,643)</u>

The beginning fund balances 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)		
	Debt Service Fund	Nonmajor Governmental Funds	Total
Fund balance, September 30, 2008, as previously reported	\$ 280	\$ 44,768	\$ 45,048
Record loans receivable not previously recorded	-	236	236
Correct interfund receivables and payables	17,318	-	17,318
Fund balance, September 30, 2008, as restated	<u>\$ 17,598</u>	<u>\$ 45,004</u>	<u>\$ 62,602</u>

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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	Nonmajor Enterprise Funds	Total Enterprise Funds
Net assets, September 30, 2008, as previously reported	\$ 39,491	\$ 45,326	\$ 84,817
Correct interfund receivables and payables	-	(17,318)	(17,318)
Assets improperly capitalized	(290)	-	(290)
Net assets, September 30, 2008, as restated	<u>\$ 39,201</u>	<u>\$ 28,008</u>	<u>\$ 67,209</u>

**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 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 FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE D - DEPOSITS AND INVESTMENTS - Continued**

**Investments**

As of September 30, 2009, the components of cash and investments and restricted assets are:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Petty cash	\$ 100	\$ 3	\$ 103
Equity in pooled investments	14,673	307	14,980
Cash and investments	72	12,832	12,904
Assets internally designated for capital improvements or redemption of warrants	-	52,540	52,540
Restricted assets held for:			
Closure and postclosure care	-	1,126	1,126
Retainage	229	56	285
Debt service	106,063	18,135	124,198
Capital improvements	74,984	148,893	223,877
Debt service or capital improvements	-	27,294	27,294
Other purposes	20,283	4,935	25,218
Total restricted assets	<u>201,559</u>	<u>200,439</u>	<u>401,998</u>
Total cash and investments	<u>\$ 216,404</u>	<u>\$ 266,121</u>	<u>\$ 482,525</u>

As of September 30, 2009, the Commission had the following deposits and investments:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	\$ 137,701	\$ 31,532	\$ 169,233
Investments:			
U.S. Government obligations	65,916	105,097	171,013
Non-U.S. Government obligations	696	906	1,602
Collateralized mortgage obligations	-	4,639	4,639
Mortgage-backed securities	-	6,938	6,938
U.S. corporate bonds	11,862	15,780	27,642
Fixed income money market mutual funds	-	101,173	101,173
Total investments	<u>78,474</u>	<u>234,533</u>	<u>313,007</u>
Restricted assets held for retainage	<u>229</u>	<u>56</u>	<u>285</u>
	<u>\$ 216,404</u>	<u>\$ 266,121</u>	<u>\$ 482,525</u>

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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 \$285,000, 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, 2009, the Commission's investments had the following maturities (in thousands):

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Thereafter
U.S. Government obligations	\$ 171,013	\$ 148,339	\$ 15,494	\$ 7,180	\$ -
Non-U.S. Government obligations	1,602	1,602	-	-	-
Collateralized mortgage obligations	4,639	-	2,366	974	1,299
Mortgage-backed securities	6,938	-	-	6,175	763
U.S. corporate bonds	27,642	8,800	18,842	-	-
Fixed income money market mutual funds	101,173	101,173	-	-	-
	<u>\$ 313,007</u>	<u>\$ 259,914</u>	<u>\$ 36,702</u>	<u>\$ 14,329</u>	<u>\$ 2,062</u>

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009. 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. There were no investments with a balance greater than five percent of total investments at September 30, 2009.

**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, 2009, the Commission's investments in U.S. Government obligations, non-U.S. Government obligations, and U.S. corporate bonds were rated "Aaa" by Standard & Poor's. No ratings were available on the other investments.

Of the Commission's \$313,007,000 in investments at September 30, 2009, \$29,680,000 of the underlying securities are held by the investment's counterparty, not in the name of the Commission.

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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE E - CAPITAL ASSETS**

Capital asset activity for the year ended September 30, 2009, was as follows:

Governmental Activities	(In Thousands)				Balance at September 30, 2009
	Balance at October 1, 2008 Restated	Additions	Disposals	Transfers/ Reclassifications	
Nondepreciable capital assets:					
Land	\$ 19,950	\$ 500	\$ -	\$ -	\$ 20,450
Construction in progress	68,273	16,344	79	(4,947)	79,749
	88,223	16,844	79	(4,947)	100,199
Depreciable capital assets:					
Buildings	335,795	-	-	175	335,970
Improvements other than land/buildings	147,905	-	-	4,772	152,677
Maintenance equipment	12,462	153	-	-	12,615
Motor vehicle (nonfleet)	15,959	945	-	-	16,904
Motor vehicle (fleet)	39,013	726	(475)	(118)	39,146
Equipment under capital lease	14,097	-	-	-	14,097
Miscellaneous equipment	55,341	1,247	(446)	-	56,142
Office furniture and fixtures	4,657	327	(20)	-	4,964
	625,229	3,398	(941)	4,829	632,515
Less accumulated depreciation for:					
Buildings	(180,278)	(8,442)	-	-	(188,720)
Improvements other than land/buildings	(63,892)	(5,643)	-	-	(69,535)
Maintenance equipment	(11,756)	(573)	-	-	(12,329)
Motor vehicle (nonfleet)	(13,809)	(782)	-	-	(14,591)
Motor vehicle (fleet)	(31,170)	(2,685)	473	30	(33,352)
Equipment under capital lease	(8,415)	(2,028)	-	-	(10,443)
Miscellaneous equipment	(43,354)	(5,531)	265	-	(48,620)
Office furniture and fixtures	(3,631)	(273)	6	-	(3,898)
	(356,305)	(25,957)	744	30	(381,488)
Total depreciable capital assets, net	268,924	(22,559)	(197)	4,859	251,027
Total capital assets, net	\$ 357,147	\$ (5,715)	\$ (118)	\$ (88)	\$ 351,226

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE E - CAPITAL ASSETS - Continued**

Business-Type Activities	(In Thousands)				
	Balance at October 1, 2008 Restated	Additions	Disposals	Transfers/ Reclassifications	Balance at September 30, 2009
Nondepreciable capital assets:					
Land	\$ 48,749	\$ 166	\$ (1,258)	\$ -	\$ 47,657
Construction in progress	77,538	5,958	(368)	(30,997)	52,131
	126,287	6,124	(1,626)	(30,997)	99,788
Depreciable capital assets:					
Buildings	1,091,566	851	-	-	1,092,417
Improvements other than land/buildings	3,303,695	3,735	(165)	30,859	3,338,124
Maintenance equipment	7,547	136	-	-	7,683
Motor vehicle (nonfleet)	4,712	9	-	-	4,721
Motor vehicle (fleet)	11,155	1,380	(90)	118	12,563
Equipment under capital lease	2,155	-	-	-	2,155
Miscellaneous equipment	19,563	503	(30)	138	20,174
Office furniture and fixtures	10,108	10	(1)	-	10,117
	4,450,501	6,624	(286)	31,115	4,487,954
Less accumulated depreciation for:					
Buildings	(238,668)	(25,835)	163	-	(264,340)
Improvements other than land/buildings	(984,402)	(108,964)	693	-	(1,092,673)
Maintenance equipment	(7,136)	(147)	-	-	(7,283)
Motor vehicle (nonfleet)	(4,190)	(204)	-	-	(4,394)
Motor vehicle (fleet)	(9,753)	(579)	90	(30)	(10,272)
Equipment under capital lease	(1,103)	(372)	-	-	(1,475)
Miscellaneous equipment	(15,286)	(1,425)	65	-	(16,646)
Office furniture and fixtures	(9,901)	(54)	-	-	(9,955)
	(1,270,439)	(137,580)	1,011	(30)	(1,407,038)
Total depreciable capital assets, net	3,180,062	(130,956)	725	31,085	3,080,916
Total capital assets, net	\$ 3,306,349	\$ (124,832)	\$ (901)	\$ 88	\$ 3,180,704

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, 2009, is \$36,988,000. See Note H for discussion of operating lease. A valuation of certain capital assets donated to the Commission in the current year and prior years related to sewer infrastructure of new subdivisions was not available as of the date of this report. These capital assets are not included in the accompanying financial statements.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE E - CAPITAL ASSETS - Continued**

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

	<b>(In Thousands)</b>
Governmental activities:	
General government	\$ 19,470
Public safety	987
Highways and roads	5,483
Health and welfare	<u>17</u>
 Total depreciation expense - governmental activities	 <u><u>\$ 25,957</u></u>
Business-type activities:	
Cooper Green Mercy Hospital	\$ 3,042
Nursing Home	412
Landfill operations	1,865
Sanitary operations	131,971
Development Authority	<u>290</u>
 Total depreciation expense - business-type activities	 <u><u>\$ 137,580</u></u>

**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, 2009, the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

	<b>(In Thousands)</b>		
	<u>Unavailable</u>	<u>Unearned</u>	<u>Total</u>
Ad valorem taxes - property	\$ 113,848	\$ -	\$ 113,848
Ad valorem taxes - other	-	3,943	3,943
Business privilege tax	<u>2,196</u>	<u>-</u>	<u>2,196</u>
 Total deferred/unearned revenue	 <u><u>\$ 116,044</u></u>	 <u><u>\$ 3,943</u></u>	 <u><u>\$ 119,987</u></u>

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009, amounts paid by the Commission totaled \$1,212,000 for governmental activities and \$896,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2009, are as follows:

Year Ending September 30,	(In Thousands)		
	Facilities	Equipment	Total
2010	\$ 979	\$ 814	\$ 1,793
2011	964	89	1,053
2012	676	-	676
2013	646	-	646
2014	654	-	654
2015-2019	2,408	-	2,408
2020-2024	1,487	-	1,487
2025-2029	1,720	-	1,720
	<u>\$ 9,534</u>	<u>\$ 903</u>	<u>\$ 10,437</u>

**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 communications 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009, are as follows:

Year Ending September 30,	(In Thousands)	
	Governmental Activities	Business-Type Activities
2010	\$ 2,355	\$ 403
2011	2,355	117
2012	57	47
2013	48	-
Total minimum lease payments	4,815	567
Less amount representing interest	276	23
Present value of minimum lease payments	\$ 4,539	\$ 544

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009:

2010	\$	918,000
2011		918,000
2012		918,000
2013		918,000
2014		918,000
Thereafter		47,047,500
		\$ 51,637,500

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 2009 of \$1,296,000 is presented as other operating revenue in the statement of revenues, expenses and changes in 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS -  
Continued**

The recorded liability for landfill closure and postclosure care costs is \$8,180,000 as of September 30, 2009. This estimate was based on 71-percent usage (filled) of the Jefferson County Landfill Number 1, 33-percent usage (filled) of the Jefferson County Landfill Number 1 Inert Cell, 72-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, 2009, are \$4,142,000 and five 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 \$1,126,000 as of September 30, 2009, 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, 2009. 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).

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

**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 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 the payment of operating expenses.

Payment of the principal 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).

Also, see Note V - Subsequent Events, regarding discussion of rating downgrades for certain of these insurers and any related impact to the Commission.

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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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 has incurred a series of ratings downgrades and 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. There were no grants to the school boards expended during fiscal 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**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.

***Jefferson County Economic and Industrial Development Authority***

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.

***Statement of Cash Flow***

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

Warrants payable consist of the following at September 30, 2009 (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% 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% and annual principal payments through 2020	12,870
Sewer Revenue Capital Improvement Warrants, Series 2002-A, with interest paid monthly at variable interest rates (6.25% at September 30, 2009) and accelerated principal payments in four equal quarterly payments beginning April 2008	101,465
Sewer Revenue Refunding Warrants, Series 2002-C, with interest paid monthly at variable interest rates or 35-day auction rates (average rate of 3.54% at September 30, 2009) and accelerated principal payments of \$436,900 over 16 equal quarterly payments beginning April 2008 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	22,040

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

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 2.59% at September 30, 2009) on \$1,133,150 with accelerated principal payments of \$300,000 over 16 equal quarterly payments beginning April 2008 and annual principal payments from year 2010 through year 2042 for the balance	1,133,150
Sewer Revenue Refunding Warrants, Series 2003-C, with interest paid monthly at 35-day auction rates (average rate of 0.62% at September 30, 2009) and annual principal payments from year 2010 through year 2042	<u>1,049,325</u>
	3,182,618
 <b><i>Governmental Activities:</i></b>	
General Obligation Warrants, Series 2001-A, with interest paid semiannually at fixed rates ranging from 4.50% to 5.00% and annual principal payments through year 2011	19,195
General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates, computed using the Weekly Rate Mode (average rate of 4.25% at September 30, 2009) and accelerated principal payments due in six equal semiannual installments beginning September 2008	105,000
General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, with interest paid semiannually at fixed rates ranging from 3.25% to 5.25% and annual principal payments through year 2023	50,165

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

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 2007 to 2025	584,050
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 rate of 1.965% at September 30, 2009) and annual principal payments from years 2006 to 2027	296,050
Lease Revenue Warrants, Series 2006, with interest paid semiannually at fixed rates ranging from 4.00% to 5.125% and annual principal payments through year 2026	84,720
	1,190,200
	4,372,818
Add unamortized net premiums (discounts) (net of current portion of \$42,985)	-
Less deferred loss from early extinguishment (net of current portion of \$290,695)	-
Less amounts due within one year (including acceleration of certain warrant payments and all warrants in default that may be payable on demand)	4,372,818
Warrants payable - noncurrent, net	\$ -

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

The following is a summary of the warrants issued by the Commission, including those outstanding as of September 30, 2009.

**BUSINESS-TYPE ACTIVITIES (amounts in thousands)**

*Sewer Capital Improvement and Refunding Warrants*

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.

Funds were deposited to escrow for the ultimate repayment of the Series 1992 and 1993 Warrants, and the Series 1995-A Warrants were purchased and retired with this issue. The Series 1997-A Warrants were partially refunded by the Series 2003-B Warrants and Series 2003-C Warrants as described below. The Series 1997-A Warrants have an outstanding balance of \$57,030 at September 30, 2009.

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

**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, Series 2003-B and Series 2003-C Warrants (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 \$12,870 at September 30, 2009. The Series 2001-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

**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, 2009. 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

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. During 2009, 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. The entire outstanding balance is currently payable to FGIC as of September 30, 2009.

**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).

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, 2009.

The Series 2002-C Warrants include \$409,638 of Variable Rate Demand Warrants and \$397,100 of auction rate warrants. The warrants are insured by Syncora pursuant to a bond insurance policy issued simultaneously with the warrants.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

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. During fiscal year 2009, 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. The total amount payable at September 30, 2009, to Syncora and the Liquidity Providers is \$259,026.

**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.

**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 \$22,040 at September 30, 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

**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 included \$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 \$1,133,150 at September 30, 2009.

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

Pursuant to its agreement with the Liquidity Providers, the Commission must redeem the repurchased 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. During fiscal year 2009, 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. The total amount payable as of September 30, 2009, to Syncora and the Liquidity Providers is \$188,063.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

**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, \$71,300 was placed in escrow for future debt service requirements, and \$956,500 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 \$1,049,325 at September 30, 2009.

**GOVERNMENTAL ACTIVITIES (amounts in thousands)**

***General Obligation Warrants***

**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 refunding 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 (Ambac filed bankruptcy in November 2010 - see Note V). The GO Series 2001-A Warrants have an outstanding balance of \$19,195 at September 30, 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

**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 (Landfill Operations) and Series 1999 and related issuance costs. The GO Series 2001-B Warrants have an outstanding balance of \$105,000 at September 30, 2009. Approximately \$19,200 of the original issue was used to refund debt for the Landfill Operations Fund. The interfund balance due from the Landfill Operations Fund to the Debt Service Fund at September 30, 2009, is \$18,102.

Standby Warrant Purchase Agreements with Morgan Guaranty Trust Company of New York (a wholly-owned subsidiary of JPMorgan Chase & Co.) and Bayerische Landesbank Girozentrale (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. During fiscal year 2009, the Commission paid a total of \$15,000 of the outstanding obligations to the GO Liquidity Providers. No additional payments have been made on the warrants. As a result, the Commission received a notice of Event of Default dated September 15, 2008, from JP Morgan Chase under the Standby Warrant Purchase Agreement and from The Bank of New York Mellon, Trustee, dated July 30, 2009, as discussed below and in Note V.

**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 refunding 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 \$50,165 at September 30, 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

**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 Commission 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, 2009.

***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 \$584,050 at September 30, 2009.

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

**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 dated January 1, 2005, with Depfa Bank PLC (LO Liquidity Provider), as discussed further below, provides for the purchase of LO Series 2005-B Warrants tendered for purchase in accordance with the terms of the agreement.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

The LO Series 2005-A and 2005-B Warrants are insured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see Note V). The LO Series 2005-A and 2005-B Warrants have an outstanding balance of \$296,050 at September 30, 2009.

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any excess 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 \$12,000 per year. The Commission used the excess Pledged Education Tax Revenues to redeem \$12,000 of the LO Series 2005-A Warrants during fiscal 2009.

A Notice of Default was issued by U.S. Bank dated December 28, 2009, related to the LO Series 2005-A and 2005-B Warrants, as discussed below and in Note V. The LO Liquidity Provider also notified the Commission of certain Events of Default related to the Series 2005-B Warrants under the Standby Warrant Purchase Agreement, including the failure to give priority to redemption of Bank Warrants for the excess pledged education Tax Revenues discussed above, as further discussed below and in Note 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.

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 (Ambac filed bankruptcy in November 2010 - see Note V). The outstanding principal balance of the LR Series 2006 Warrants was \$84,720 at September 30, 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2009. Activity related to the long-term debt is as follows:

Issue	Balance at September 30, 2008	Additions	Payments	Balance at September 30, 2009	Due within One Year
<b>Business-Type Activities:</b>					
Series 1997-A Warrants	\$ 57,030	\$ -	\$ -	\$ 57,030	\$ 57,030
Series 2001-A Warrants	13,740	-	870	12,870	12,870
Series 2002-A Warrants	101,465	-	-	101,465	101,465
Series 2002-C Warrants	806,738	-	-	806,738	806,738
Series 2003-A Warrants	25,220	-	3,180	22,040	22,040
Series 2003-B Warrants	1,137,025	-	3,875	1,133,150	1,133,150
Series 2003-C Warrants	<u>1,052,025</u>	<u>-</u>	<u>2,700</u>	<u>1,049,325</u>	<u>1,049,325</u>
	3,193,243	-	10,625	3,182,618	3,182,618
<b>Governmental Activities:</b>					
Series 2001-A GO Warrants	28,185	-	8,990	19,195	19,195
Series 2001-B GO Warrants	120,000	-	15,000	105,000	105,000
Series 2003-A GO Warrants	56,310	-	6,145	50,165	50,165
Series 2004-A GO Warrants	51,020	-	-	51,020	51,020
Series 2004-A LO Warrants	607,115	-	23,065	584,050	584,050
Series 2005-A&B LO Warrants	318,500	-	22,450	296,050	296,050
Series 2006 Lease Warrants	<u>85,755</u>	<u>-</u>	<u>1,035</u>	<u>84,720</u>	<u>84,720</u>
	<u>1,266,885</u>	<u>-</u>	<u>76,685</u>	<u>1,190,200</u>	<u>1,190,200</u>
	<u>\$ 4,460,128</u>	<u>\$ -</u>	<u>\$ 87,310</u>	<u>\$ 4,372,818</u>	<u>\$ 4,372,818</u>

*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.*

Payments above do not include any payments made on behalf of the Commission by the municipal insurers or banks under the Standby Warrant Purchase Agreements as these amounts are still outstanding at September 30, 2009.

**Standby Warrant Purchase Agreements**

Under the terms of the Indenture and Trust 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

The Commission entered into Standby Warrant Purchase Agreements between 2001 and 2005 with various banks (Liquidity Providers), 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 the warrants subject to such agreements were tendered during 2008 by the warrant holders for repurchase by the banks (Liquidity Providers). Pursuant to the Standby Warrant Purchase Agreements, the Liquidity Providers repurchased those warrants described in the preceding paragraph that were tendered.

The repurchase of warrants resulted in the acceleration of certain warrant payments (under optional and mandatory tender of warrants), as the warrants held by the banks (Liquidity Providers), with the exception of the LO Series 2005-B Warrants, are basically payable over a three or four-year period from the date of optional tender.

The Commission entered into certain Forbearance Agreements to forbear any action while efforts were made to restructure the warrant obligations. Such Forbearance Agreements ultimately expired in June and July 2009 rendering certain payments due to the Liquidity Providers under the terms of the various Standby Warrant Purchase Agreements.

Ultimately, the accelerated schedules have resulted in notices of default and events of defaults on certain warrant and related agreements, as neither the Commission nor the majority of bond insurers have been able to repay the warrants on the accelerated maturity schedules.

See discussion below regarding the Forbearance Agreements and Events of Default on the Standby Warrant Purchase Agreements.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

**Events of Default**

The Trustees issued Notices of Default for the Indenture and Trust Indenture that stated the circumstances described therein will become Events of Default if not cured within 30 days of the date of the notices, as follows:

*Business-Type Activities*

**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.

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

As discussed in the September 22, 2008, Material Event Notice (below), 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.

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

*February 17, 2009* - The Trustee delivered a Notice of Default to the Commission dated February 17, 2009, pursuant to Section 13.1(c) 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 12.5(c) of the Indenture that requires the review and adjustment of customer sewer rates and charges and the implementation of a rate increase no later than January 1, 2009, to allow compliance with the Rate Covenant of the Indenture.

The Trustee further notified the Commission 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.

*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 times 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

The Trustee further notified the Commission 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 13.1(c) 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).

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.

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

**Events 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).

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 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 below 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

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.

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 was to expire 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-A Warrants are insured by FGIC.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

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.

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 provided 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 over multiple periods and ultimately expired on 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

The Liquidity Facility Forbearance Agreements also provided 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, when the extension expired.

The Liquidity Facility Forbearance Agreements further provided 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. The forbearance agreements expired in June or July 2009, and all deferred payments became immediately due and payable. The Commission has not made certain payments due to the Liquidity Providers, which has resulted in a default under the Standby Warrant Purchase Agreements. All payments due are included in the maturity schedules for the warrants.

Certain warrants incur interest at variable rates of interest based on current market rates or auction rates, which are reset every 35 days.

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.

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



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

In addition, the defaults on certain warrants or the Standby Warrant Purchase Agreements have resulted in default rates of interest incurred by the Commission. See separate discussion regarding the Events of Default.

*Governmental Activities*

**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.

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.

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.

**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - Continued**

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 September 14, 2009 (see Material Event Notices below and Liquidity Facility Forbearance Agreements discussion below). As a result of these events, \$118,740 of the scheduled payments was accelerated to be due in six equal semiannual payments. Of the remaining balance of \$105,000, \$83,950 is due in fiscal year 2010, and \$19,790 is due in fiscal year 2011, with the remaining \$1,260 due in fiscal year 2021.

The Commission received a Notice of Event of Default dated July 30, 2009, from The Bank of New York Mellon, as Indenture Trustee, stating that an event of default had occurred under the Indenture due to the Commission's failure to pay certain principal payments due on the GO Series 2001-B Variable Rate Demand Warrants under the accelerated repayment terms for warrants repurchased by the Liquidity Providers per the Standby Warrant Purchase Agreement.

**Liquidity Facility Forbearance Agreements**

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

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 provided 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 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.

**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - Continued**

**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 six months.

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 an Event of Default under Section 17.1(b) of the Indenture.

**Events of Default - Standby Warrant Purchase Agreement - LO Series 2005-B**

The Commission also received a Notice of Default under Standby Warrant Purchase Agreement dated May 6, 2010, from Depfa Bank PLC (Depfa Bank). 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.

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**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 and 2009. Depfa Bank further notes the defaults described in the December 28, 2009, Notice (discussed above). As a result, Depfa Bank has notified the Commission that it has exercised its right to charge, as of January 27, 2010, the default rate of interest as allowed under the Agreement, which results in a three-percent increase over the current interest rate.

**Maturity Schedules**

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).

**Original Terms**

Fiscal Year Ending September 30,	Business-Type Activities		Governmental Activities		Total Principal and Interest Requirements to Maturity		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2010	\$ 28,495	\$ 74,435	\$ 48,910	\$ 50,145	\$ 77,405	\$ 124,580	\$ 201,985
2011	32,195	73,596	49,770	47,999	81,965	121,595	203,560
2012	33,560	72,721	54,970	45,906	88,530	118,627	207,157
2013	35,035	71,807	57,540	43,524	92,575	115,331	207,906
2014	36,750	70,843	60,230	41,007	96,980	111,850	208,830
2015-2019	215,480	340,473	346,255	162,615	561,735	503,088	1,064,823
2020-2024	317,205	307,348	399,845	82,418	717,050	389,766	1,106,816
2025-2029	457,210	250,234	172,680	6,165	629,890	256,399	886,289
2030-2034	513,900	204,620	-	-	513,900	204,620	718,520
2035-2039	839,050	121,105	-	-	839,050	121,105	960,155
2040-2044	673,738	23,072	-	-	673,738	23,072	696,810
	<u>\$3,182,618</u>	<u>\$1,610,254</u>	<u>\$1,190,200</u>	<u>\$ 479,779</u>	<u>\$4,372,818</u>	<u>\$2,090,033</u>	<u>\$6,462,851</u>

*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.*

As discussed above, certain warrants are subject to accelerated repayment schedules from the original terms. 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).

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

*Accelerated Repayment Schedule*

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2010	\$ 555,574	\$ 132,860	\$ 688,434
2011	201,645	69,560	271,205
2012	116,496	45,275	161,771
2013	31,457	47,390	78,847
2014	33,046	49,610	82,656
2015-2019	188,541	285,270	473,811
2020-2024	224,563	387,555	612,118
2025-2029	327,888	172,680	500,568
2030-2034	415,431	-	415,431
2035-2039	587,968	-	587,968
2040-2044	500,009	-	500,009
	<u>\$ 3,182,618</u>	<u>\$ 1,190,200</u>	<u>\$ 4,372,818</u>

While a restructuring of the warrants payable obligations could result in a revised payment schedule, Notices and Events of Default have occurred related to the outstanding warrants payable, as discussed further throughout Note J. In addition, there are certain series of warrants that are subject to a cross-default under the terms of the various indentures. With the continuance of the Events of Default, the Trustee may declare the outstanding warrants payable due and payable on demand under the terms of the various indentures. As a result, the following table presents the outstanding warrants payable amounts as current liabilities:

*Due on Demand Accelerated Repayment Schedule*

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2010	\$ 3,182,618	\$ 1,190,200	\$ 4,372,818
Thereafter	-	-	-
	<u>\$ 3,182,618</u>	<u>\$ 1,190,200</u>	<u>\$ 4,372,818</u>

Additionally, the related deferred charges - issuance costs have been classified as current assets.

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NOTES TO FINANCIAL STATEMENTS  
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**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, 2009, warrants of \$1,297,675 (\$1,274,635 of Business-Type Activities and \$23,040 of Governmental Activities) are outstanding, and the related fair market value of the escrow account balances for these defeased warrants held in trust totals \$1,425,960 (\$1,399,255 Enterprise Fund and \$26,705 Governmental Fund) at September 30, 2009.

**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 refunding	\$ 6,570	\$ 72,853	\$ 360,618
Accreted (amortized), net in prior years	(523)	(18,277)	(59,303)
	6,047	54,576	301,315
Current year (amortization) accretion, net	(434)	(3,042)	(10,748)
Net balance at September 30, 2009	<u>\$ 5,613</u>	<u>\$ 51,534</u>	<u>\$ 290,567</u>

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

	(In Thousands)		
	Premiums (Discounts) Net	Issuance Costs	Deferred Loss on Refundings
Governmental Activities:			
Total premiums (discounts), net issuance costs, deferred loss on refunding	\$ 51,347	\$ 19,128	\$ 1,793
Accreted (amortized), net in prior years	(11,375)	(4,435)	(1,409)
	39,972	14,693	384
Current year (amortization) accretion, net	(2,600)	(962)	(256)
Net balance at September 30, 2009	<u>\$ 37,372</u>	<u>\$ 13,731</u>	<u>\$ 128</u>
Commission total:			
Total premiums (discounts), net issuance costs, deferred loss on refunding	\$ 57,917	\$ 91,981	\$ 362,411
Accreted (amortized), net in prior years	(11,898)	(22,712)	(60,712)
	46,019	69,269	301,699
Current year (amortization) accretion, net	(3,034)	(4,004)	(11,004)
Net balance at September 30, 2009	<u>\$ 42,985</u>	<u>\$ 65,265</u>	<u>\$ 290,695</u>

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 are reflected in the combining statement of net assets - nonmajor enterprise funds. Additionally, issuance costs of \$105, classified as current assets, are included in the Landfill Operations Fund, which is also 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.

**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - Continued**

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, 2009. The Commission obtained the arbitrage rebate calculations for the Governmental Activities' tax-exempt warrants and has recorded accrued arbitrage rebates of \$31,188 as of September 30, 2009. On February 19, 2010, the Commission made an arbitrage rebate payment of \$27,363 for the Governmental Activities' tax-exempt warrants.

**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 is required to maintain a rate stabilization fund 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, 2009.

The Trustee can and has authorized disbursements from certain reserve funds held for the Business-Type Activities Warrant funds for payment principal and interest due during fiscal 2009. The Trustee has notified the Commission of the failure to maintain or replenish the reserve funds at the levels required under the warrant agreements. As a result, the Commission is in default for these warrant agreements.



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NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

In addition, the proceeds from each warrant issue were 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 \$194,322 at September 30, 2009. 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 were 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. The terms of certain warrant agreements require debt reserve funds to be maintained, and funds may be deposited in debt service accounts pending payment to the Trustee. Such accounts are reported as restricted cash and investments.

Restricted cash and investments totaled \$181,047 at September 30, 2009. See Note D for discussion of the investments held at year end.

**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. The only NRMSIR currently recognized by the Securities and Exchange Commission is the Municipal Securities Rulemaking Board.

Material events notices are required to be filed with each NRMSIR and any Alabama state information depository.

**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - Continued**

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 and 2009 (described below) and subsequent to September 30, 2009, including notices of events of default for certain agreements. See Note V for subsequent event disclosures regarding additional material events notices and other matters that relate to the warrant agreements.

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

	<b>Fiscal Year Ended September 30,</b>			
	<b>2009</b>	<b>2008</b>	<b>2007</b>	<b>2006</b>
Active accounts	141,590	143,576	162,911	160,059
Average daily treatments volume (millions of gallons treated)	113	92	84	112
Sewer charges (000s)	\$166,931	\$167,159	\$153,472	\$132,954
% Revenue - largest customer	1.21%	1.35%	1.77%	1.85%
% Revenue - top 10 customers	6.31%	5.32%	5.77%	7.48%

**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - Continued**

<b>2009 Top 10 Customers</b>	<b>Consumption (in Gallons)</b>	<b>Billed</b>
U.S. Steel	426,646	\$ 2,020,595
University of Alabama at Birmingham	232,824	1,722,898
Veterans' Administration	229,535	1,694,081
Brookwood Medical Center	139,230	1,030,302
Barber's Pure Milk Company	121,980	794,334
SMI Steel, Inc.	98,974	732,408
The Children's Hospital	86,433	639,604
Samford University	86,384	639,242
Trinity Medical Center	85,405	631,997
Medical Center East	84,125	622,525
	<u>1,591,536</u>	<u>\$ 10,527,986</u>

Effective January 1, 2008, 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. However, a rate increase was not implemented as of January 1, 2009 or 2010. 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).

**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.

**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - Continued**

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 cover 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 2009 and subsequent periods, certain payments of principal and interest were made on behalf of the Commission by the insurers. The amounts paid are disclosed in this report and are currently payable from the Commission to the insurers. As a result, the insurers have assumed certain rights under the terms of the related warrant agreements. In addition, other payments of principal and interest are due on certain warrants but remain unpaid at September 30, 2009, by the Commission or the insurers. As a result, the Commission has a payment Event of Default for certain warrant agreements - see Event of Default section above.

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. See Note V - Subsequent Events.

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**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.

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**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).

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**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**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).



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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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 J), 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).

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**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.

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NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

*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).

*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 (Note J) and Swap Forbearance Agreements (Note K).

*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 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 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 (Note J).

*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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

*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 (Note J) and Swap Forbearance Agreements (Note K).

*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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

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.

*January 5, 2009* - The January 5, 2009, Material Event Notice disclosed that on December 19, 2008, the Trustee (The 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. 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

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.

*February 24, 2009* - The February 24, 2009, Material Event Notices disclosed that on February 17, 2009, the Trustee (The 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 Commission. 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - 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 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. See Note V for further discussion.

As described in a Prior Notice, the Trustee, at the direction of FGIC and Syncora, has filed a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the Commission’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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - 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 Commission 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.

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 Commission’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 Commission’s financial problems will be reached with, the Commission’s creditors.



**JEFFERSON COUNTY COMMISSION  
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**NOTE J - WARRANTS PAYABLE - 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.

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

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.

**JEFFERSON COUNTY COMMISSION  
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**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.

**JEFFERSON COUNTY COMMISSION  
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**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 made monthly cash transfers of \$1,657 to the Reserve Fund in fiscal 2008 (discussed below).

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 was 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. As of September 30, 2009, the balance in the Reserve Fund was \$27,293.

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**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).

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**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 Commission 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.

**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.

**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 National (formerly known as MBIA), and Ambac insured warrants on June 26, 2008.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE J - WARRANTS PAYABLE - Continued**

*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 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.

*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.



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**NOTE J - WARRANTS PAYABLE - Continued**

**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 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 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 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.

**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 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE J - WARRANTS PAYABLE - Continued**

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.

**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 ended 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, 2009. See Note V for a discussion of events subsequent to year end.

Since all of the interest rate swap agreements have been terminated as of September 30, 2009, the fair value of the interest rate swap agreements as of September 30, 2009, was estimated using the Market Quotation Method (termination payment notice fee plus accrued interest).

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

**Risks**

At September 30, 2009, 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 were terminated.

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.

Each of the interest rate swap agreements were terminated by the counterparty to the agreement prior to or during fiscal 2009. The following discussion summarizes the transactions and events as of September 30, 2009.

**Valuation**

Interest rate swap agreements generally 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. However, as noted above, the interest rate swap agreements were terminated, so the reported fair value consists of any termination fees payable plus any related accrued interest.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

Following is a summary of the estimated fair value of the interest rate swap agreements that the Commission had executed with counterparties that have amounts payable at September 30, 2009 (all of which have been terminated prior to September 30, 2009) (all amounts reported in thousands):

Issue and Counterparty	Original Notional Amount	Termination Date	Termination Payment Notice - (Payment) Receipt	Amount Waived Per JPMorgan Settlement	Accrued Interest	Estimated Fair Value - (Negative)
<b>Business-Type Activities</b>						
Series 2002-A Warrants:						
JPMorgan Chase Bank	\$ 110,000	3/3/2009	\$ (37,857)	\$ 37,857	\$ -	\$ -
Bear Stearns	110,000	3/3/2009	(25,835)	NA	(34)	(25,869)
Series 2002-C Warrants:						
JPMorgan Chase Bank	539,446	3/3/2009	(153,756)	153,756	-	-
Bank of America	110,000	7/15/2008	(11,866)	NA	(540)	(12,406)
Lehman Brothers	190,054	12/15/2008	(68,568)	NA	(2,128)	(70,696)
Bear Stearns	824,700	3/3/2009	10,524	NA	14	10,538
Series 2003-B Warrants:						
JPMorgan Chase Bank	1,035,800	3/3/2009	(255,717)	255,717	-	-
Bear Stearns	633,078	3/3/2009	6,250	NA	23	6,273
Bank of America	379,847	7/15/2008	(2,560)	NA	(31)	(2,591)
Series 2003-C Warrants:						
JPMorgan Chase Bank	789,019	3/3/2009	(194,224)	194,224	-	-
Bank of America	263,006	7/15/2008	(16,763)	NA	(708)	(17,471)
Series 1997-A, 2001-A, 2002-C:						
JPMorgan Chase Bank	200,000	3/3/2009	(3,500)	3,500	-	-
Series 1997-A, 2002-C, 2003-B:						
JPMorgan Chase Bank	175,000	3/3/2009	(2,750)	2,750	-	-
	5,359,950		(756,622)	647,804	(3,404)	(112,222)
<b>Governmental Activities</b>						
Series 2001-B Warrants:						
JPMorgan Chase Bank	120,000	9/4/2008	(7,894)	-	(355)	(8,249)
	<u>\$5,479,950</u>		<u>\$ (764,516)</u>	<u>\$ 647,804</u>	<u>\$ (3,759)</u>	<u>\$ (120,471)</u>

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

**Material Event Notices**

The Commission had certain events during fiscal 2009 and 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 affected the interest rate swap agreements.

**Termination Events**

Certain events occurred during fiscal 2009 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 gave the counterparty to each agreement the right for early termination of the interest rate swap agreements. As such, all interest rate swap agreements were terminated prior to September 30, 2009.

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 temporarily suspended. However, all such agreements expired and all payments under the swap agreements were due and payable to the counterparties.

The Commission received Early Termination Notices from three of the counterparties (JPMorgan Chase Bank, Lehman Brothers Special Financing, Inc. and Bear Stearns) discussed separately below, which resulted in termination payments due to the counterparty to the agreement.

There were nine interest rate swap agreements that were terminated during 2009 for the Business-Type Activities, as set forth in the table on the preceding page.

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

**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 was terminated on March 3, 2009.

Under the interest rate swap agreement, the Commission made payments based on a fixed rate of 5.06 percent and received payments computed on the variable BMA Municipal Swap Index (SIFMA Swap Index). The interest rate swap agreement had a notional amount of \$110,000.

**Fair Value**

The termination fee for the interest rate swap agreement was waived per a settlement agreement with JP Morgan Chase Bank - see the Interest Rate Swap Agreements Termination Events section below.

***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 and terminated on March 3, 2009, December 15, 2008 and July 15, 2008, respectively.

Under the interest rate swap agreements, the Commission made payments based on a fixed rate of 3.92 percent and received variable payments computed on the basis of 67 percent of the one-month LIBOR.

**Fair Value**

The termination fee for the interest rate swap agreement with JPMorgan Chase Bank was waived per a settlement agreement with JP Morgan Chase Bank - see the Interest Rate Swap Agreements Termination Events section below.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

The interest rate swap agreements with Lehman Brothers Special Financing and Bank of America had a negative fair value of \$70,696 (including accrued interest of \$2,128) and \$12,406 (including accrued interest of \$540), respectively. The fair value of the interest rate swap agreements were estimated 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 with JPMorgan Chase Bank. The interest rate swap agreement was terminated on March 3, 2009. Under the swap agreement, the Commission made payments based on a fixed rate of 3.678 percent and received 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.

**Fair Value**

The termination fee for the interest rate swap agreement was waived per a settlement agreement with JPMorgan Chase Bank - see the Interest Rate Swap Agreements Termination Events section below.

**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. Bank of America terminated the swap agreement on July 15, 2008, and JPMorgan Chase Bank terminated the swap agreement on March 3, 2009.

Under the interest rate swap agreement, the Commission made payments based on a fixed rate of 3.596 percent and received variable rate payments computed on the basis of 67 percent of the one-month LIBOR.

**Fair Value**

The termination fee for the interest rate swap agreement was waived per a settlement agreement with JPMorgan Chase Bank - see the Interest Rate Swap Agreements Termination Events section below. As of September 30, 2009, the interest rate swap agreement with Bank of America had a negative fair value of \$17,471, including accrued interest of \$708. The fair value of the interest rate swap agreements was estimated using the Market Quotation Method.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

**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.

**Terms**

The interest rate swap agreement was executed with JPMorgan Chase Bank. The notional amount of the interest rate swap agreement was \$200,000 and was terminated on March 3, 2009.

**Fair Value**

The termination fee for the interest rate swap agreement was waived per a settlement agreement with JPMorgan Chase Bank - see the Interest Rate Swap Agreements Termination Events section below.

**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 with JPMorgan Chase Bank that was terminated on March 3, 2009.

**Fair Value**

The termination fee for the interest rate swap agreement was waived per a settlement agreement with JPMorgan Chase Bank - see the Interest Rate Swap Agreements Termination Events section below.

**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. 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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

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.

**Fair Value**

As of September 30, 2009, the \$110,000 and \$379,847 notional amount swap agreements had negative fair values of \$25,869 (including accrued interest of \$34) and \$2,591 (including accrued interest of \$31), respectively. As of September 30, 2009, the \$824,700 and \$633,078 notional amount swap agreements had fair values of \$10,538 (including accrued interest of \$14) and \$6,273 (including accrued interest of \$23), respectively. The fair values of the interest rate swap agreements were estimated using the Market Quotation Method.

**Swap Forbearance Agreements**

As a result of the Additional Termination Event which occurred on March 7, 2008 (see Interest Rate Swap Agreements Termination Events below), 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 generally provided 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.

The initial swap forbearance period expired on April 15, 2008, and was 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 had the right to terminate the swap transactions, but the termination payments were not due until the expiration date of the forbearance agreements.

**JEFFERSON COUNTY COMMISSION  
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**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

**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. all of which have been terminated as of September 30, 2009.

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.

With the occurrence of the Additional Termination Events, each counterparty had the right, exercisable at its discretion, to terminate its swap transactions upon notice to the Commission. When the counterparties exercised their rights to terminate, the Commission was obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreements.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

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. Also, see subsequent events discussion on settlement in Note V.

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, 2009, resulted in termination fees and accrued interest of \$112,222 that were recorded as of September 30, 2009, and are included in these financial statements.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued**

**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 and was terminated on September 4, 2008.

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 constituted an Additional Termination Event unless the Commission 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 had the right, exercisable at its discretion, to terminate its swap transactions upon notice to the Commission. When the counterparties exercised their rights to terminate, the Commission was 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 resulted in an additional termination payment that would be due to the counterparty.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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. 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, 2009, 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 less unpaid amounts owed to the Commission of \$192, or a net payment amount of \$7,894. The negative fair value was \$8,249 for the JPMorgan Chase Bank interest rate swap agreement as of September 30, 2009, including \$355 of accrued interest.

**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, 2009, the principal amount outstanding was \$30,555,000.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009. 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.

**Annual Pension Cost**

For the year ended September 30, 2009, the Commission's annual pension contribution of \$9,657,000 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, 2009, 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, 2009, was eight years.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE M - DEFINED BENEFIT PENSION PLAN - Continued**

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
09/30/2009	\$ 9,657	100%	\$ -
09/30/2008	9,860	100%	-
09/30/2007	9,276	100%	-

**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, 2009, 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]
09/30/09	\$ 973,523	\$ 909,779	\$ (63,744)	107.01%	\$ 158,254	(40.28%)
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%)

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued**

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 518 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 \$5,421,000 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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE O - COUNTY APPROPRIATION AGREEMENT - Continued**

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 of \$5,000,000 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, 2009, the Development Authority was indebted to the Commission in the amount of \$15,483,000, which is presented as advances due to/from other funds in the accompanying statement of net assets. This amount is eliminated in the government-wide statement of net assets.

**Warrants Payable**

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2009:

	(in Thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
Warrant issue - 2004 series	\$ 5,855	\$ -	\$ 2,615	\$ 3,240
Less amount due in one year				-
				\$ 3,240

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

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

Warrants payable are comprised of the following at September 30, 2009 (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 \$7 and deferred loss on refunding of \$55)	\$ 3,178
Less amount due in one year, net	<u>-</u>
Warrants payable - noncurrent, net	<u>\$ 3,178</u>

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

	Principal	Interest	Total
2010	\$ -	\$ 103	\$ 103
2011	1,390	82	1,472
2012	1,435	38	1,473
2013	<u>415</u>	<u>7</u>	<u>422</u>
	<u>\$ 3,240</u>	<u>\$ 230</u>	<u>\$ 3,470</u>

During the year ended September 20, 2009, the Development Authority paid the amounts due in 2010 of \$1,330. Therefore, contractually, no amounts are due within one year of September 30, 2009.

As of September 30, 2009, the amount recorded for deferred charges - issuance costs was \$17,000.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

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

**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, 2009, \$6,560,000 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, 2009, were as follows:

	<b>Advances from Other Funds (in Thousands)</b>		
	<b>Limited Obligation School Fund</b>	<b>Nonmajor Enterprise Funds</b>	<b>Totals</b>
Advances to other funds:			
General Fund	\$ 1,638	\$ 15,483	\$ 17,121
Debt Service Fund	-	18,102	18,102
	\$ 1,638	\$ 33,585	\$ 35,223

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE Q - TRANSACTIONS WITH OTHER FUNDS - Continued**

**Interfund Transfers**

The amounts of interfund transfers during the fiscal year ended September 30, 2009, were as follows:

	Transfers in (in Thousands)					Totals
	General Fund	Cooper Green Hospital Fund	Debt Service Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	
Transfers out:						
General Fund	\$ -	\$ 6,760	\$ -	\$ 2,045	\$ 2,810	\$ 11,615
Indigent Care Fund	-	41,435	-	-	-	41,435
Bridge and Public Building Fund	1,332	-	27,006	17,463	-	45,801
Nonmajor Governmental Funds	-	-	-	5,144	-	5,144
Nonmajor Enterprise Funds	29	-	-	-	-	29
	<u>\$ 1,361</u>	<u>\$ 48,195</u>	<u>\$ 27,006</u>	<u>\$ 24,652</u>	<u>\$ 2,810</u>	<u>\$ 104,024</u>

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. Plaintiffs in this action successfully obtained, on behalf of a class, a declaration that the Commission's occupational tax was invalid and an injunction against the further collection of that tax. The Alabama Supreme Court affirmed this ruling.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

As a result, the Commission had to refund the tax in the amount of approximately \$37,800,000. To that end, the Commission escrowed occupational tax collections from January 12, 2009 to August 13, 2009. While the case was on its first appeal, the Alabama Legislature reauthorized the Commission to collect an occupational tax. In a subsequent appeal, the Alabama Supreme Court recognized that, under the new legislation, the Commission could levy and collect the new tax for the period covered by the escrow, but that the Commission could not simply transfer to itself the amounts that had been escrowed. After this second appeal, the Commission mediated with Plaintiffs' counsel and reached a settlement framework applicable to \$6,500,000 of the escrowed taxes. On May 19, 2011, the trial court ordered that \$31,416,169 be refunded to taxpayers, less any attorneys' fees that may be awarded by the Court. On August 9, 2011, the trial court gave final approval to the settlement that had been struck between the named class representatives and the Commission. Taxpayers who did not elect to opt out of the class will receive a release from the Commission for any potential recollection of occupational, license, or privilege taxes for the escrow period and the taxpayers, in turn, have foregone the right to receive their pro rata share of the \$6,500,000. Taxpayers who did opt out of the class will receive their pro rata share of the settlement fund, but will not receive a release from potential retroactive taxation. The Commission has already paid \$1,100,000 to cover the administrative costs of refund administration pursuant to the trial court's order, and an additional \$70,000 will be paid from the settlement fund to cover these expenses. These amounts have been accrued in the accompanying financial statements as of September 30, 2009. Should the costs of refund and settlement administration exceed \$1,170,000, the Commission agreed as part of the settlement to pay those additional amounts.

*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, license, and privilege taxpayers who paid such taxes pursuant to Alabama Act 2009-811. The taxes levied between August 1 and December 31 of 2009 amounted to approximately \$31 million, but portions of those taxes (consisting in no small part of taxes attributable to work done outside Jefferson County) may have been refunded in 2010.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE 5 - CONTINGENT LIABILITIES AND LITIGATION - Continued**

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 March 16, 2011, the Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional, but has not yet decided the question whether the Commission must refund the taxes collected prior to December 1, 2010. If the Commission is ordered to refund the taxes collected prior to December 1, 2010, that amount could exceed \$90,000,000.

*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, moved to dismiss the action. The Court subsequently denied all motions to dismiss. Several defendants have petitioned the Alabama Supreme Court for writs of mandamus to have the trial court's denial of the motions to dismiss overturned, but the Alabama Supreme Court has not yet ruled on those petitions. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2009.

*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, 2009.

*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 on August 3, 2009. On September 22, 2010, the Plaintiff obtained the appointment of John S. Young, Jr. as Receiver over the Commission'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. Other than litigation pertaining to the Receiver's powers, there is no active litigation on the claims in this case.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

Several additional parties have sought to intervene in this matter since the order appointing the Receiver was entered. The potential intervening parties include the Attorney General of the State of Alabama, the Plaintiffs from the *Wilson* action (discussed above), a group of Alabama state legislators, and another group that includes legislators, Birmingham city officials, and citizens. No intervenors seek to state new claims against the Commission. The trial court has not ruled on any of the pending applications for intervention. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2009.

*Jefferson County, Alabama v. JPMorgan, et al*, Case number CV-2009-903641.00, was filed on November 13, 2009, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. The Commission brought suit against J.P. Morgan 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 claims are alleged to be based, at least in part, on events that took place before September 30, 2009.

The Commission seeks damages in excess of a billion dollars, and the JPMorgan defendants have counterclaimed for indemnification. The case is proceeding into discovery and is currently on track to go to trial in October 2013. The outcome of this case is unknown.

*Syncora Guaranty v. Jefferson County, Alabama, et al*, Case number 601100/10, was filed on April 29, 2010, 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, JPMorgan Chase Bank, N.A., and J.P. Morgan Securities, Inc. (the two non-County defendants, collectively, "JPMorgan"). The claims are alleged to be based, at least in part, on events that took place before September 30, 2009. 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 former Commissioners and JPMorgan. Syncora claims damages in excess of \$400,000,000. Unlike the *Bank of New York Mellon* 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

The Commission counterclaimed against Syncora, claiming that Syncora defrauded the Commission by concealing the weakness of Syncora's investment portfolio. Syncora moved to dismiss the Commission's counterclaims, and the Court granted that motion. Moreover, JPMorgan has cross-claimed against the Commission for indemnification, alleging that certain documents executed in connection with the Commission's sewer financing require the Commission to reimburse any of JPMorgan's liability to Syncora. The Commission has moved to dismiss JPMorgan's cross-claim, and a hearing on that motion is scheduled for August 16, 2011. This case is in its early stages, and discovery is not complete. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2009.

*Assured Guaranty Municipal Corp v. JPMorgan*, Supreme Court of the State of New York, County of New York, Case No. 650642/10, was filed June 16, 2010. Assured Guaranty brought claims against J.P. Morgan Securities LLC and JPMorgan Chase Bank, N.A. (collectively, "JPMorgan") for fraud arising out of JPMorgan's involvement in the financing of improvements to the Commission's sewer system. On February 10, 2011, JPMorgan filed a third-party complaint against the Commission, alleging that certain documents executed in connection with the Commission's sewer financing require the Commission to reimburse any of JPMorgan's liability to Assured Guaranty arising out of this suit. The Commission has moved to dismiss JPMorgan's third-party complaint, and a hearing on that motion is scheduled for August 16, 2011. This case is in its early stages and discovery is not complete. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2009.

*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 Commission 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, 2009.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

*In the Matter of J.P. Morgan Securities, Inc., Respondent;* Securities and Exchange Commission, Administrative Proceeding, File No. 3-13673: The Commission has received \$75,033,692 as the result of a settlement between J.P. Morgan Securities, Inc. (“JPMSI”) and the Securities Exchange Commission (“SEC”) that resolved cease and desist proceedings brought by the SEC against JPMSI under Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934. Although the Commission was not in receipt of these funds as of September 30, 2009, the Commission received payment of the funds in full subsequent to September 30, 2009.

Pursuant to an order dated November 4, 2009, JPMSI wired \$50,000,000 to the Commission. The Commission received such funds on November 10, 2009. As set forth in the order, this payment was “to and for the benefit of Jefferson County, Alabama.” Its purpose was to assist displaced Commission employees, residents and sewer ratepayers. Further pursuant to the November 4, 2009 order, JPMSI paid a disgorgement of \$1.00 and a civil money penalty in the amount of \$25,000,000 to the SEC, which created a “Fair Fund” pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002. The civil money penalty was “treated as penalties paid to the government for all purposes, including tax purposes.” On August 18, 2010 the SEC issued a Notice of Proposed Plan of Distribution and Opportunity for Comment pursuant to Rule 1103 of the SEC’s Rules on Fair Funds and Disgorgement, 17 C.F.R. section 201.110. The Notice provided that the pool of potential recipients of the Fair Fund included the Commission and the individuals and entities that purchased securities in the bond offerings underwritten by JPMSI. The SEC determined that the Commission “suffered direct economic harm” as a result of JPMSI’s actions, including the cost of improper payments, inflated swap payments, and inflated interest rates. In addition, the SEC found that the Commission “suffered additional harm to its reputation, credit rating, and ability to refinance.” The SEC further concluded that the purchasers of securities suffered no harm from JPMSI’s activities. Accordingly, the SEC concluded the Commission was the eligible recipient of the Fair Fund.

The Notice also provided for a public comment period, but the SEC received no comments. Accordingly, on October 7, 2010 the SEC issued an order approving the payment of the Fair Fund to the Commission. On February 1, 2011 the SEC entered an order directing disbursement of the Fair Fund, and providing that validated electronic payment had been received and accepted by the Commission in the amount of \$25,033,692.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

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 of a claim to the proceeds of the \$50,000,000 payment to the Commission by JPMSI under Alabama Code § 6-5-20. 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, 2009.

By letter dated June 20, 2011, the Receiver demanded \$50,000,000 of the funds received by the Commission from JPMSI. The Receiver noted that the purpose of the payment was to assist displaced Commission employees, residents and sewer ratepayers. The Receiver claimed responsibility for protecting System ratepayers and demanded the \$50,000,000 for the purpose of "using it to fund the Receiver's low-income assistance program for multiple years," and expressed a willingness "to discuss the possibility of a payment plan that fully funds the low-income assistance program." Also on June 20, 2011 the Receiver presented a claim for the Fair Fund proceeds in the amount of \$25,033,692. Because the SEC orders make clear that all funds were paid to and for the benefit of Commission, and in compensation of harm suffered by the Commission, the Commission has disputed such claims. By letter dated June 27, 2011 the Receiver extended the Commission's time to respond to these demands during a 30-day "standstill" period for settlement discussions.

The outcome of this matter is unknown; therefore, the Commission cannot estimate a loss, if any, related to the claim by The Bank of New York Mellon or by the Receiver as of September 30, 2009.

*Claim under Financial Guaranty Agreement with Syncora.* Syncora gave notice of claim to the Commission under Alabama Code § 6-5-20 that it may seek reimbursement of \$32,722,119 paid by Syncora on the Commission's behalf under a debt service reserve fund policy 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, 2009. 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 likely outcome of this matter is unknown.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

*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. 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.

*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.

*Notice by Bayern LB and JPMorgan under Standby Warrant Purchase Agreements.* The Commission received notice from Bayern LB on August 10, 2010 and JPMorgan Chase Bank, N.A. 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.

*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. To our knowledge, 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued**

*Claim Against County Regarding Validity of Sewer Warrants.* On June 1, 2011, James Hilgers sent a notice of claim to the Commission President that takes the position that the Commission’s sewer debt is void and unenforceable because it does not comply with the requirements of Amendment 73. The Commission is still evaluating the allegations of this claim, and there is currently no active litigation with respect to it. The likely outcome of this matter is unknown at the current date.

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.

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, 2009, the Commission has commitments of the following:

Name of Commitment	(in Thousands) Amount
Legal services	\$ 1,314
Five Mile Creek sewer improvements	1,402
Brooklane Road improvements	1,500
Linndale Road improvements	500
Vehicle maintenance	695
Medicaid services	1,272
Software support	573
	\$ 7,256

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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, 2009, the Commission accrued expenses related to these agreements of \$2,145,000 into general fund accounts payable in the accompanying balance sheet. As of September 30, 2009, 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):

2010		\$	1,661
2011			1,899
2012			2,461
2013			2,175
2014			2,175
Thereafter			2,975
			\$ 13,346

**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 \$550,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE U - RISK MANAGEMENT - Continued**

- *Property Insurance* - Commercial insurance coverage purchased in the maximum amount of \$1 billion 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) \$5 million with respect to extra expense and (d) \$500,000 with respect to transit.
  
- *Hospital and Nursing Home Medical Malpractice and General Liability* - Certain medical professional employees purchase individual insurance protection that is applicable to their Commission employment. The Commission reimburses premiums for medical malpractice - professional liability insurance coverage for those Commission medical professional employees in amounts up to a stated amount per year. Coverage consists of \$1 million per occurrence and \$3 million aggregate.
  
- *Health Insurance* - Self-insured with excess coverage through a commercial insurance provider. The Commission purchases specific reinsurance coverage of \$2 million lifetime maximum per covered individual, subject to a \$250,000 annual deductible and aggregate reinsurance coverage of \$1 million 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE U - RISK MANAGEMENT - Continued**

For the year ended September 30, 2009, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

<b>Balance October 1, 2008</b>	<b>Claims Incurred</b>	<b>Claims Paid</b>	<b>Increase/ Decrease in Provision</b>	<b>Balance September 30, 2009</b>
\$ 3,871,000	\$ 28,974,000	\$ (34,041,000)	\$ 4,881,000	\$ 3,685,000

For the year ended September 30, 2009, 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	
	2009	2008	2009	2008	2009	2008	2009	2008
Unpaid claims and claim adjustment expenses:								
Accrual at beginning of fiscal year	\$ 1,370	\$ 1,794	\$ 223	\$ 594	\$ 4,519	\$ 3,970	\$ 6,112	\$ 6,358
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	229	302	6	115	1,067	1,004	1,302	1,421
Increases/decreases in provision for insured events of prior fiscal years	(165)	(496)	9	(371)	283	836	127	(31)
Total incurred claims and claim adjustment expenses	64	(194)	15	(256)	1,350	1,840	1,429	1,390
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(23)	(230)	(3)	(115)	(1,038)	(1,291)	(1,064)	(1,636)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	(58)	-	(8)	-	(451)	-	(517)	-
Total payments	(81)	(230)	(11)	(115)	(1,489)	(1,291)	(1,581)	(1,636)
Accrual at end of fiscal year	<u>\$ 1,353</u>	<u>\$ 1,370</u>	<u>\$ 227</u>	<u>\$ 223</u>	<u>\$ 4,380</u>	<u>\$ 4,519</u>	<u>\$ 5,960</u>	<u>\$ 6,112</u>

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS**

On February 22, 2011, the Commission authorized the sale of its nursing home facility to Noland Health Services Inc., a Birmingham-based nonprofit health care organization, for \$9,500,000. However, upon expiration of the due diligence period, a satisfactory agreement could not be reached. Currently, the Commission is considering a resolution to sell the licenses for unoccupied beds.

In April 2011, widespread tornado, hail and windstorm events impacted the Commission and the residents of Jefferson County, Alabama. As a result of the severe weather, the Commission incurred expenses related to debris removal and damage to buildings and equipment. Total losses to the Commission, net of insurance, federal and state reimbursements, are estimated to be approximately \$500,000.

**BUSINESS-TYPE ACTIVITIES (amounts in thousands)**

***Sewer Revenue Warrants***

As of September 30, 2009, the Commission has outstanding \$57,030 aggregate principal amount of its Series 1997-A Warrants, \$12,870 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, \$22,040 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), \$731,925 of its Series 2003-B-1-A to 1-E Warrants and \$1,049,325 of its Series 2003-C Warrants (collectively referred to as the Auction Rate Sewer Revenue Warrants). Of the \$3,182,618 of warrants outstanding at September 30, 2009, \$3,059,353 of warrants are insured by AGM, 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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS - Continued**

**Material Events Notices**

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS - Continued**

**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.

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 Commission 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.

**June 3, 2011** - The June 3, 2011, Material Event Notice disclosed that on May 2, 2011, the Commission received letters from the Internal Revenue Service stating that the Series 2003-B Warrants and the Series 2003-C Warrants have been selected for examination to determine compliance with federal tax requirements. The Internal Revenue Service (IRS) Letters and the corresponding Information Document Requests delivered to the Commission request certain documents relating to the Series 2003-B Warrants and the Series 2003-C Warrants be forwarded to the IRS.

If the IRS determines that federal tax laws or regulations applicable to the Series 2003-B Warrants or the Series 2003-C Warrants have been violated, interest on the said Warrants could be declared taxable, and a tax liability could be assessed against the holders of all or some portion of the said Warrants.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS - Continued**

*July 19, 2011* - The July 19, 2011 Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, \$46,046,250 in aggregate principal amount of Warrants was due for accelerated redemption on July 1, 2011. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on July 1, 2011.

**Settlement Payment**

The Securities and Exchange Commission (SEC) has investigated JP Morgan Chase Bank in connection with certain transactions conducted in prior years related to the sewer revenue warrants and interest rate swap agreements. JP Morgan Chase Bank entered into a settlement agreement with the SEC in November 2009 whereby JP Morgan Chase Bank has paid to the Commission \$75,000 and has waived \$647,804 in swap termination fees associated with its terminated interest rate swap agreements related to the Commission's sewer revenue warrants (see Note K).

The settlement agreement stated that the first payment of \$50,000 received by the Commission on November 9, 2009, be to and for the benefit of Jefferson County, Alabama, for the purpose of assisting displaced Commission employees, residents and sewer ratepayers. The second payment of \$25,000 was initially payable to the SEC but was subsequently paid to the Commission on February 11, 2011.

**Warrant Events of Default**

As discussed above and in Note J, 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, all of the Sewer Revenue Warrants are currently in default.

**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 \$194,320 as of September 30, 2009.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
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**NOTE V - SUBSEQUENT EVENTS - Continued**

**GOVERNMENTAL ACTIVITIES (amounts in thousands)**

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

As of September 30, 2009, the Commission has outstanding \$19,195 aggregate principal of its General Obligation Warrants, Series 2001-A, \$105,000 aggregate principal of its General Obligation Warrants, Series 2001-B (Variable Rate Warrants), \$50,165 aggregate principal of its General Obligation Warrants, Series 2003-A, \$51,020 aggregate principal of its General Obligation Warrants, Series 2004-A, \$584,050 aggregate principal of its Limited Obligation School Warrants, Series 2004-A (together, the Fixed Rate Warrants), \$296,050 of its Limited Obligation School Warrants, Series 2005-A (\$110,900 of Auction Rate Warrants) and 2005-B (\$185,150 of Variable Rate Warrants), and \$84,720 of its Lease Revenue Warrants, Series 2006. Of the \$1,190,200 warrants outstanding at September 30, 2009, \$1,085,200 of warrants are insured by Ambac or National. Ambac filed Chapter 11 bankruptcy in November 2010 as discussed further below.

**Material Events Notices**

***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 Sections 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.

Events of Default under the Indenture have occurred and are continuing under Section 13.1(a) of the Indenture as a result of 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS - Continued**

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.

**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.

**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.

**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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS - Continued**

*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.

*March 29, 2011* - The March 29, 2011, Material Event Notice disclosed that the Supreme Court of Alabama held that Jefferson County's occupational tax and business license tax were unconstitutional and that the Commission has ceased collecting the taxes. The taxes generated approximately 21 percent of the total funds deposited to the general fund for 2009.

In addition, a payment event of default related to the General Obligation Warrants, Series 2001-B was disclosed. On March 15, 2011, 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.

*April 13, 2011* - The April 13, 2011, Material Event Notice disclosed a ratings downgrade related to the Limited Obligation School Warrants and Lease Revenue Warrants, Series 2006. The Warrants are insured by Ambac. On April 7, 2011, the ratings assigned to Ambac by Moody's were withdrawn. Pursuant to Moody'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 Moody's to the Ambac insured Warrants remains "B3" and "Caa2" for the Limited Obligation School Warrants and Lease Revenue Warrants, Series 2006, respectively, to match the SPUR for these Warrants.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE V - SUBSEQUENT EVENTS - Continued**

*April 27, 2011* - The April 27, 2011, Material Event Notice disclosed a ratings downgrade related to the Limited Obligation School Warrants. The Warrants are insured by Ambac. On April 19, 2011, the underlying rating assigned to the Warrants by S&P was reduced from “BBB” to “BBB-”.

**Ambac Bankruptcy**

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.

**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 Limited Obligation School Warrants - LO Series 2004-A, 2005-A and 2005-B are currently in default. An Indenture default affects all warrants under that Indenture.

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 Bank 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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE W - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS**

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.

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 implementation of this statement did not have a material effect on the financial statements of the Commission.

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.



**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE W - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS -  
Continued**

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is effective for the Commission beginning with the fiscal year ending September 30, 2013. This statement improves financial reporting for governmental organizations to better meet user needs and address current reporting entity issues. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The effect of the application of this statement on the Commission has not been determined.

In December 2010, the GASB issued Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*, which is effective for the Commission beginning with the fiscal year ending September 30, 2013. The objective of this statement is to incorporate into the GASB's authoritative literature certain accounting and financial reporting guidance that is included in Financial Accounting Standards Board (FASB), Accounting Principles Board (APB) and American Institute of Certified Public Accountants (AICPA) pronouncements issued on or before November 30, 1989, which does not conflict with or contradict GASB pronouncements. The effect of the implementation of this statement on the Commission has not been determined.

In July 2011, the GASB issued Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which is effective for the Commission beginning with the fiscal year ending September 30, 2013. GASB Statement No. 63 provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources and net position. This statement requires that deferred outflows of resources and deferred inflows of resources be reported separately from assets and liabilities. This statement also amends certain provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related pronouncements to reflect the residual measure in the statement of financial position as net position, rather than net assets. The effect of the implementation of this statement on the Commission has not been determined.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**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.

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. As of September 30, 2009, the Commission continued 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's 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.

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.

**JEFFERSON COUNTY COMMISSION  
NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2009**

**NOTE X - UNCERTAINTIES - Continued**

As of September 30, 2009, 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.

Subsequent to the appointment of the Receiver, certain holders of System debt expressed a desire to delay substantive negotiations until they could assess the effect of the receivership on net System revenues. On June 27, 2011, the Receiver and the State Finance Director entered into a 30-day standstill agreement to facilitate negotiations with various holders of the System debt, which was subsequently extended to August 4, 2011, and again to August 12, 2011. On August 12, 2011, the Receiver and the Finance Director agreed to a further extension of the standstill agreement until September 16, 2011. Pursuant to their agreement, so long as the Commission does not file a petition under Chapter 9, among other things, the Receiver agreed to delay a planned System rate increase for the same period. The Commission believes a refinancing or restructuring of the System debt may be achievable outside of bankruptcy. However, the outcome cannot be assured at this time.

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 Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional, but has not yet decided the question whether the County must refund the taxes collected prior to December 1, 2010. See Note S for a discussion of the related litigation. Although there is no impact on the accompanying financial statements as of September 30, 2009, the resulting loss of tax revenue could have a material effect on future operations, unless the Legislature passes legislation authorizing a replacement tax. While the Commission believes 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, 2009**

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
<b>Revenues</b>				
Taxes	\$ 102,804	\$ 103,329	\$ 103,108	\$ 103,108
Licenses and permits	80,886	47,663	31,246	31,246
Intergovernmental	61,169	41,324	38,859	38,859
Charges for services, net	37,707	68,362	26,981	26,981
Miscellaneous	712	2,724	4,641	4,641
Interest and investment income	5,659	2,876	4,605	4,605
	<u>288,937</u>	<u>266,278</u>	<u>209,440</u>	<u>209,440</u>
<b>Expenditures</b>				
Current:				
General government	192,118	176,869	141,708	141,708
Public safety	72,777	66,188	69,169	69,169
Highway and roads	33,320	29,805	22,860	22,860
Culture and recreation	5,286	5,286	5,286	5,286
Education - other	173	173	3	3
Capital outlay	-	-	2,166	2,166
Indirect expenses	-	-	(10,399)	(10,399)
Debt service:				
Principal retirement	-	-	53	53
Interest and fiscal charges	-	-	37	37
	<u>303,674</u>	<u>278,321</u>	<u>230,883</u>	<u>230,883</u>
<b>Deficiency of Revenues over Expenditures</b>	(14,737)	(12,043)	(21,443)	(21,443)
<b>Other Financing Sources (Uses)</b>				
Sale of capital assets, net	315	327	29	29
Transfers in	17,422	17,422	1,361	1,361
Transfers out	(3,000)	(3,000)	(11,615)	(11,615)
	<u>14,737</u>	<u>14,749</u>	<u>(10,225)</u>	<u>(10,225)</u>
<b>Net Changes in Fund Balances</b>	-	2,706	(31,668)	(31,668)
<b>Fund Balance - beginning of year</b>	<u>42,086</u>	<u>42,086</u>	<u>42,086</u>	<u>42,086</u>
<b>Fund Balance - end of year</b>	<u>\$ 42,086</u>	<u>\$ 44,792</u>	<u>\$ 10,418</u>	<u>\$ 10,418</u>

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**JEFFERSON COUNTY COMMISSION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - LIMITED OBLIGATION SCHOOL FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
<b>Revenues</b>				
Taxes	\$ 102,000	\$ 81,578	\$ 81,578	\$ 81,578
Interest and investment income	-	564	568	568
	102,000	82,142	82,146	82,146
<b>Expenditures</b>				
General government	-	150	170	170
Debt service:				
Principal retirement	45,515	45,515	45,515	45,515
Interest and fiscal charges	56,485	56,335	44,087	44,087
	102,000	102,000	89,772	89,772
<b>Net Changes in Fund Balances</b>	-	(19,858)	(7,626)	(7,626)
<b>Fund Balance - beginning of year</b>	162,235	162,235	162,235	162,235
<b>Fund Balance - end of year</b>	\$ 162,235	\$ 142,377	\$ 154,609	\$ 154,609

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**JEFFERSON COUNTY COMMISSION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - INDIGENT CARE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
<b>Revenues</b>				
Taxes	\$ 46,277	\$ 41,650	\$ 40,370	\$ 40,370
Miscellaneous	-	-	77	77
Interest and investment income	-	-	3	3
	46,277	41,650	40,450	40,450
<b>Expenditures</b>				
Indirect expenses	-	-	7	7
	-	-	7	7
<b>Excess of Revenues over Expenditures</b>	46,277	41,650	40,443	40,443
<b>Other Financing Sources (Uses)</b>				
Transfers out	(46,277)	(41,650)	(41,435)	(41,435)
	(46,277)	(41,650)	(41,435)	(41,435)
<b>Net Changes in Fund Balances</b>	-	-	(992)	(992)
<b>Fund Balance - beginning of year</b>	9,062	9,062	9,062	9,062
	9,062	9,062	9,062	9,062
<b>Fund Balance - end of year</b>	\$ 9,062	\$ 9,062	\$ 8,070	\$ 8,070

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**JEFFERSON COUNTY COMMISSION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - BRIDGE AND PUBLIC BUILDING FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
<b>Revenues</b>				
Taxes	\$ 43,021	\$ 42,271	\$ 43,380	\$ 43,380
Intergovernmental	-	-	740	740
Miscellaneous	-	-	1,641	1,641
Interest and investment income	-	-	151	151
	<u>43,021</u>	<u>42,271</u>	<u>45,912</u>	<u>45,912</u>
<b>Expenditures</b>				
General government	-	-	2	2
Indirect expenses	-	-	8	8
	<u>-</u>	<u>-</u>	<u>10</u>	<u>10</u>
<b>Excess of Revenues over Expenditures</b>	43,021	42,271	45,902	45,902
<b>Other Financing Sources (Uses)</b>				
Transfers out	<u>(43,021)</u>	<u>(43,021)</u>	<u>(45,801)</u>	<u>(45,801)</u>
<b>Net Changes in Fund Balances</b>	-	(750)	101	101
<b>Fund Balance - beginning of year</b>	<u>(1,282)</u>	<u>(1,282)</u>	<u>(1,282)</u>	<u>(1,282)</u>
<b>Fund Balance - end of year</b>	<u>\$ (1,282)</u>	<u>\$ (2,032)</u>	<u>\$ (1,181)</u>	<u>\$ (1,181)</u>

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**JEFFERSON COUNTY COMMISSION**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**  
**BUDGET AND ACTUAL - DEBT SERVICE FUND**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
<b>Revenues</b>				
Intergovernmental	\$ 1,400	\$ 2,872	\$ 2,875	\$ 2,875
Interest and investment income	9	9	5	5
	<u>1,409</u>	<u>2,881</u>	<u>2,880</u>	<u>2,880</u>
<b>Expenditures</b>				
General government	-	-	4	4
Indirect expenses	-	-	91	91
Debt service:				
Principal retirement	14,430	19,430	30,135	30,135
Interest and fiscal charges	24,680	24,680	10,677	10,677
	<u>39,110</u>	<u>44,110</u>	<u>40,907</u>	<u>40,907</u>
<b>Deficiency of Revenues over Expenditures</b>	(37,701)	(41,229)	(38,027)	(38,027)
<b>Other Financing Sources (Uses)</b>				
Transfers in	-	4,686	27,006	27,006
Transfers out	-	(5,358)	-	-
	<u>-</u>	<u>(672)</u>	<u>27,006</u>	<u>27,006</u>
<b>Net Changes in Fund Balances</b>	(37,701)	(41,901)	(11,021)	(11,021)
<b>Fund Balance - beginning of year, as restated</b>	<u>17,598</u>	<u>17,598</u>	<u>17,598</u>	<u>17,598</u>
<b>Fund Balance - end of year</b>	<u>\$ (20,103)</u>	<u>\$ (24,303)</u>	<u>\$ 6,577</u>	<u>\$ 6,577</u>

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**SUPPLEMENTARY INFORMATION**

**JEFFERSON COUNTY COMMISSION  
COMBINING BALANCE SHEET -  
NONMAJOR GOVERNMENTAL FUNDS  
SEPTEMBER 30, 2009  
(IN THOUSANDS)**

ASSETS	Community Development Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Cash and investments	\$ -	\$ -	\$ 4,686	\$ -	\$ -	\$ 439	\$ 5,125
Accounts receivable, net	-	4	-	31	-	-	35
Due from (to) other governments	-	-	-	-	(35)	456	421
Prepaid expenses	1	51	-	-	-	-	52
Loans receivable, net	571	-	-	-	90	-	661
Restricted assets	-	-	36,415	-	-	-	36,415
Advances due from (to) other funds	-	-	-	-	-	-	-
	<u>\$ 572</u>	<u>\$ 55</u>	<u>\$ 41,101</u>	<u>\$ 31</u>	<u>\$ 55</u>	<u>\$ 895</u>	<u>\$ 42,709</u>
<b>LIABILITIES AND FUND BALANCES</b>							
<b>Liabilities</b>							
Accounts payable	\$ 198	\$ 1,020	\$ 781	\$ 479	\$ -	\$ 527	\$ 3,005
Accrued wages and benefits	64	-	-	-	4	10	78
Accrued interest	-	-	2,131	-	-	-	2,131
<b>Total Liabilities</b>	<b>262</b>	<b>1,020</b>	<b>2,912</b>	<b>479</b>	<b>4</b>	<b>537</b>	<b>5,214</b>
<b>Fund Balances</b>							
Reserved for:							
Encumbrances	1,132	16,827	10,061	3,596	1,586	392	33,594
Loans receivable	571	-	-	-	90	-	661
Capital projects	-	-	28,128	-	-	-	28,128
Unreserved reported in:							
Special Revenue Funds	(1,393)	-	-	-	(1,625)	(34)	(3,052)
Capital Projects Fund	-	(17,792)	-	(4,044)	-	-	(21,836)
	<u>310</u>	<u>(965)</u>	<u>38,189</u>	<u>(448)</u>	<u>51</u>	<u>358</u>	<u>37,495</u>
	<u>\$ 572</u>	<u>\$ 55</u>	<u>\$ 41,101</u>	<u>\$ 31</u>	<u>\$ 55</u>	<u>\$ 895</u>	<u>\$ 42,709</u>

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**JEFFERSON COUNTY COMMISSION**  
**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**  
**(IN THOUSANDS)**

	Community Development Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
<b>Revenues</b>							
Intergovernmental	\$ 2,793	\$ -	\$ -	\$ -	\$ 650	\$ 1,524	\$ 4,967
Charges for services, net	-	-	-	834	-	601	1,435
Miscellaneous	-	1,615	26	-	-	1,786	3,427
Interest and investment income	-	-	691	-	171	-	862
	<u>2,793</u>	<u>1,615</u>	<u>717</u>	<u>834</u>	<u>821</u>	<u>3,911</u>	<u>10,691</u>
<b>Expenditures</b>							
Current:							
General government	4,410	1,197	-	9	1,346	-	6,962
Public safety	-	-	-	-	-	3,048	3,048
Highway and roads	-	-	-	134	-	-	134
Health and welfare	36	-	-	-	-	1,302	1,338
Capital outlay	-	1,761	11,801	4,514	-	-	18,076
Indirect expenses	390	-	-	-	23	117	530
Debt service:							
Principal retirement	-	2,049	1,035	-	-	-	3,084
Interest and fiscal charges	-	249	4,287	-	-	-	4,536
	<u>4,836</u>	<u>5,256</u>	<u>17,123</u>	<u>4,657</u>	<u>1,369</u>	<u>4,467</u>	<u>37,708</u>
<b>Deficiency of Revenues over Expenditures</b>	(2,043)	(3,641)	(16,406)	(3,823)	(548)	(556)	(27,017)
<b>Other Financing Sources (Uses)</b>							
Transfers in	2,032	12,770	5,144	4,692	14	-	24,652
Transfers out	-	(5,144)	-	-	-	-	(5,144)
	<u>2,032</u>	<u>7,626</u>	<u>5,144</u>	<u>4,692</u>	<u>14</u>	<u>-</u>	<u>19,508</u>
<b>Net Changes in Fund Balances</b>	(11)	3,985	(11,262)	869	(534)	(556)	(7,509)
<b>Fund Balance - beginning of year, as previously reported</b>	321	(4,950)	49,451	(1,317)	349	914	44,768
<b>Prior Period Adjustments</b>	-	-	-	-	236	-	236
<b>Fund Balance - beginning of year, as restated</b>	<u>321</u>	<u>(4,950)</u>	<u>49,451</u>	<u>(1,317)</u>	<u>585</u>	<u>914</u>	<u>45,004</u>
<b>Fund Balance - end of year</b>	<u>\$ 310</u>	<u>\$ (965)</u>	<u>\$ 38,189</u>	<u>\$ (448)</u>	<u>\$ 51</u>	<u>\$ 358</u>	<u>\$ 37,495</u>

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**JEFFERSON COUNTY COMMISSION  
COMBINING STATEMENT OF NET ASSETS -  
NONMAJOR ENTERPRISE FUNDS  
SEPTEMBER 30, 2009  
(IN THOUSANDS)**

ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
<b>Current Assets</b>				
Cash and investments	\$ 419	\$ 70	\$ 2,353	\$ 2,842
Patient accounts receivable, net	-	933	-	933
Accounts receivable, net	117	-	61	178
Other receivables	-	4	-	4
Due to other governments	-	-	(1,300)	(1,300)
Inventories	-	45	-	45
Prepaid expenses	-	60	-	60
Deferred charges - issuance costs	105	-	-	105
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	641	1,112	1,114	2,867
<b>Noncurrent Assets</b>				
Restricted assets	1,126	-	3,311	4,437
Advances due from (to) other funds	(18,102)	-	(15,483)	(33,585)
Deferred charges - issuance costs	-	-	17	17
Capital assets:				
Depreciable assets, net	28,873	8,441	4,640	41,954
Nondepreciable assets	8,115	9	13,291	21,415
	<hr/>	<hr/>	<hr/>	<hr/>
	20,012	8,450	5,776	34,238
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 20,653	\$ 9,562	\$ 6,890	\$ 37,105
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

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<b>LIABILITIES AND NET ASSETS</b>	<b>Landfill Operations Fund</b>	<b>Jefferson Rehabilitation and Health Center Fund</b>	<b>Jefferson County Economic and Industrial Development Authority</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>Current Liabilities</b>				
Accounts payable	\$ -	\$ 811	\$ -	\$ 811
Accrued wages and benefits	3	250	-	253
Accrued interest	-	-	7	7
Estimated claims liability	-	359	-	359
Estimated liability for compensated absences	-	229	-	229
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Current Liabilities</b>	<b>3</b>	<b>1,649</b>	<b>7</b>	<b>1,659</b>
<b>Noncurrent Liabilities</b>				
Warrants payable	-	-	3,240	3,240
Add: Unamortized premiums (discounts)	-	-	(7)	(7)
Less: Deferred loss on refunding	-	-	(55)	(55)
	<hr/>	<hr/>	<hr/>	<hr/>
	-	-	3,178	3,178
Estimated liability for landfill closure and postclosure care costs	8,180	-	-	8,180
Estimated liability for compensated absences	-	253	-	253
	<hr/>	<hr/>	<hr/>	<hr/>
<b>Total Liabilities</b>	<b>8,183</b>	<b>1,902</b>	<b>3,185</b>	<b>13,270</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	37,094	8,450	(2,021)	43,523
Restricted for:				
Debt service	-	-	3,311	3,311
Closure and postclosure care	1,126	-	-	1,126
Unrestricted	(25,750)	(790)	2,415	(24,125)
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 12,470	\$ 7,660	\$ 3,705	\$ 23,835
	<hr/>	<hr/>	<hr/>	<hr/>

**JEFFERSON COUNTY COMMISSION**  
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -**  
**NONMAJOR ENTERPRISE FUNDS**  
**FOR THE YEAR ENDED SEPTEMBER 30, 2009**  
**(IN THOUSANDS)**

	<b>Landfill Operations Fund</b>	<b>Jefferson Rehabilitation and Health Center Fund</b>	<b>Jefferson County Economic and Industrial Development Authority</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>Operating Revenues</b>				
Charges for services, net	\$ -	\$ 10,183	\$ -	\$ 10,183
Other operating revenue	1,296	40	322	1,658
	<u>1,296</u>	<u>10,223</u>	<u>322</u>	<u>11,841</u>
<b>Operating Expenses</b>				
Salaries	-	5,343	232	5,575
Employee benefits and payroll taxes	41	1,749	16	1,806
Materials and supplies	-	1,265	-	1,265
Utilities	-	978	28	1,006
Outside services	-	2,050	152	2,202
Office expenses	-	144	87	231
Depreciation	1,865	412	290	2,567
Closure and postclosure care	585	-	-	585
Indirect expenses	773	1,723	-	2,496
Miscellaneous	-	452	12	464
	<u>3,264</u>	<u>14,116</u>	<u>817</u>	<u>18,197</u>
<b>Operating Loss</b>	(1,968)	(3,893)	(495)	(6,356)
<b>Nonoperating Revenues (Expenses)</b>				
Interest expense, net	(784)	-	(326)	(1,110)
Interest revenue	5	-	11	16
Amortization of warrant related costs	(9)	-	(126)	(135)
Gain on sale or retirement of capital assets	-	-	631	631
	<u>(788)</u>	<u>-</u>	<u>190</u>	<u>(598)</u>
<b>Operating Transfers</b>				
Transfers in	-	2,810	-	2,810
Transfers out	(29)	-	-	(29)
	<u>(29)</u>	<u>2,810</u>	<u>-</u>	<u>2,781</u>
<b>Change in Net Assets</b>	(2,785)	(1,083)	(305)	(4,173)
<b>Net Assets - beginning of year, as previously reported</b>	32,573	8,743	4,010	45,326
<b>Prior Period Adjustments</b>	(17,318)	-	-	(17,318)
<b>Net Assets - beginning of year, restated</b>	15,255	8,743	4,010	28,008
<b>Net Assets - end of year</b>	<u>\$ 12,470</u>	<u>\$ 7,660</u>	<u>\$ 3,705</u>	<u>\$ 23,835</u>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION  
COMBINING STATEMENT OF CASH FLOWS -  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009  
(IN THOUSANDS)**

	<b>Landfill Operations Fund</b>	<b>Jefferson Rehabilitation and Health Center Fund</b>	<b>Jefferson County Economic and Industrial Development Authority</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>Cash Flows from Operating Activities</b>				
Cash received from services	\$ -	\$ 10,763	\$ 555	\$ 11,318
Cash payments to employees	(41)	(7,130)	(248)	(7,419)
Cash payments for goods and services	(773)	(6,004)	(267)	(7,044)
Other receipts and payments, net	2,454	(427)	(3,468)	(1,441)
<b>Net Cash Provided (Used) by Operating Activities</b>	1,640	(2,798)	(3,428)	(4,586)
<b>Cash Flows from Noncapital Financing Activities</b>				
Operating transfers in	-	2,810	-	2,810
Operating transfers out	(29)	-	-	(29)
<b>Net Cash Provided (Used) by Noncapital Financing Activities</b>	(29)	2,810	-	2,781
<b>Cash Flows from Capital and Related Financing Activities</b>				
Acquisition of capital assets	-	(7)	(316)	(323)
Sale of capital assets	-	-	1,515	1,515
Interest paid	(784)	-	(336)	(1,120)
Principal payments on warrants	-	-	(2,615)	(2,615)
<b>Net Cash Used by Capital and Related Financing Activities</b>	(784)	(7)	(1,752)	(2,543)
<b>Cash Flows from Investing Activities</b>				
Interest received	5	-	11	16
Miscellaneous	-	(4)	14	10
<b>Net Cash Provided (Used) by Investing Activities</b>	5	(4)	25	26
<b>Increase (Decrease) in Cash and Investments</b>	832	1	(5,155)	(4,322)
<b>Cash and Investments - beginning of year</b>	713	69	10,819	11,601
<b>Cash and Investments - end of year</b>	<u>\$ 1,545</u>	<u>\$ 70</u>	<u>\$ 5,664</u>	<u>\$ 7,279</u>
<b>Displayed As</b>				
Cash and investments	\$ 419	\$ 70	\$ 2,353	\$ 2,842
Restricted assets - noncurrent cash	1,126	-	3,311	4,437
	<u>\$ 1,545</u>	<u>\$ 70</u>	<u>\$ 5,664</u>	<u>\$ 7,279</u>



**JEFFERSON COUNTY COMMISSION  
COMBINING STATEMENT OF CASH FLOWS -  
NONMAJOR ENTERPRISE FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2009  
(IN THOUSANDS)  
(Continued)**

	<b>Landfill Operations Fund</b>	<b>Jefferson Rehabilitation and Health Center Fund</b>	<b>Jefferson County Economic and Industrial Development Authority</b>	<b>Total Nonmajor Enterprise Funds</b>
<b>Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities</b>				
Operating loss	\$ (1,968)	\$ (3,893)	\$ (495)	\$ (6,356)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	1,865	412	290	2,567
Provision for bad debts	-	343	-	343
Change in patient accounts receivable	-	237	-	237
Change in accounts receivable	(38)	-	234	196
Change in other receivables	-	-	303	303
Change in advances due (to) from other funds	784	-	(3,760)	(2,976)
Change in inventories	-	33	-	33
Change in prepaid expenses	-	(60)	-	(60)
Change in accounts payable	-	183	-	183
Change in accrued wages and benefits	(1)	(42)	-	(43)
Change in estimated claims liability	-	(15)	-	(15)
Change in estimated liability for compensated absences	-	4	-	4
Change in liability for landfill closure and postclosure care costs	998	-	-	998
	<u>3,608</u>	<u>1,095</u>	<u>(2,933)</u>	<u>1,770</u>
<b>Net Cash Provided (Used) by Operating Activities</b>	<u>\$ 1,640</u>	<u>\$ (2,798)</u>	<u>\$ (3,428)</u>	<u>\$ (4,586)</u>
<b>SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES</b>				
Gain on sale or retirement of capital assets	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 631</u>	<u>\$ 631</u>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**  
**COMBINING STATEMENT OF FIDUCIARY NET ASSETS -**  
**AGENCY FUNDS**  
**SEPTEMBER 30, 2009**  
**(IN THOUSANDS)**

<b>ASSETS</b>	<b>Storm Water Management Authority Fund</b>	<b>City of Birmingham Revolving Loan Fund</b>	<b>Total Agency Funds</b>
<b>Current Assets</b>			
Cash and investments	\$ 866	\$ 701	\$ 1,567
Loans receivable, net	-	392	392
	<hr/>	<hr/>	<hr/>
<b>Total Current Assets</b>	866	1,093	1,959
Depreciable assets, net	81	-	81
	<hr/>	<hr/>	<hr/>
	\$ 947	\$ 1,093	\$ 2,040
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>
 <b>LIABILITIES</b>			
Accounts payable and accrued expenses	\$ 377	\$ -	\$ 377
Due to external organizations	570	-	570
Due to other governments	-	1,093	1,093
	<hr/>	<hr/>	<hr/>
	\$ 947	\$ 1,093	\$ 2,040
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**  
**COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**  
**AGENCY FUNDS**  
**SEPTEMBER 30, 2009**  
**(IN THOUSANDS)**

	Balance October 1, 2008	Additions	Deductions	Balance September 30, 2009
<b><u>Storm Water Management Authority Fund</u></b>				
<b>Assets</b>				
Cash and investments	\$ 1,979	\$ 1,176	\$ (2,289)	\$ 866
Prepaid expenses	2	-	(2)	-
Depreciable assets, net	125	-	(44)	81
	<u>\$ 2,106</u>	<u>\$ 1,176</u>	<u>\$ (2,335)</u>	<u>\$ 947</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 361	\$ 16	\$ -	\$ 377
Due to external organizations	1,745	-	(1,175)	570
	<u>\$ 2,106</u>	<u>\$ 16</u>	<u>\$ (1,175)</u>	<u>\$ 947</u>
<b><u>City of Birmingham Revolving Loan Fund</u></b>				
<b>Assets</b>				
Cash and investments	\$ 627	\$ 124	\$ (50)	\$ 701
Loans receivable, net	306	135	(49)	392
	<u>\$ 933</u>	<u>\$ 259</u>	<u>\$ (99)</u>	<u>\$ 1,093</u>
<b>Liabilities</b>				
Due to other governments	\$ 933	\$ 160	\$ -	\$ 1,093
<b><u>Agency Fund Totals</u></b>				
<b>Assets</b>				
Cash and investments	\$ 2,606	\$ 1,300	\$ (2,339)	\$ 1,567
Loans receivable, net	306	135	(49)	392
Prepaid expenses	2	-	(2)	-
Depreciable assets, net	125	-	(44)	81
	<u>\$ 3,039</u>	<u>\$ 1,435</u>	<u>\$ (2,434)</u>	<u>\$ 2,040</u>
<b>Liabilities</b>				
Accounts payable and accrued expenses	\$ 361	\$ 16	\$ -	\$ 377
Due to external organizations	1,745	-	(1,175)	570
Due to other governments	933	160	-	1,093
	<u>\$ 3,039</u>	<u>\$ 176</u>	<u>\$ (1,175)</u>	<u>\$ 2,040</u>

See independent auditors' report.

**ADDITIONAL INFORMATION**

**JEFFERSON COUNTY COMMISSION  
COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL  
SEPTEMBER 30, 2009**

<b>Commission Members As of August 16, 2011</b>			<b>Term Expires</b>
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 August 16, 2011**

Jeffery T. Hager	Finance Director	Suite 810 Jefferson County Courthouse Birmingham, AL 35263
Jeffrey M. Sewell	County Attorney	Suite 280 Jefferson County Courthouse Birmingham, AL 35263