JEFFERSON COUNTY COMMISSION

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2011

WARREN AVERETT, LLC
Warren Averett Kimbrough & Marino Division

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INDEPENDENT AUDITORS' REPORT

February 22, 2013

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, 2011, 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.

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.

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, 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, 2011, 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 years, the Commission received Notices and Events of Default from indenture trustees and certain banks for certain debt obligations and has been unable to meet its accelerated debt service obligations as they become due. In addition, the Commission filed a petition for relief under Chapter 9 of the United States Bankruptcy Code on November 9, 2011, in the United States Bankruptcy Court for the Northern District of Alabama. While the terms of the outstanding warrants payable may ultimately be restructured with the creditors through the Bankruptcy Case, under the current Events of Default and potential cross-defaults, the indenture 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. As discussed in Note S, subsequent to September 30, 2011, 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. 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 U. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note U, the Commission has been granted relief under the provisions of Chapter 9 of the United States Bankruptcy Code. Currently, representatives of the Commission are negotiating with creditors to restructure the Commission's outstanding obligations through a Chapter 9 plan of adjustment of debts. However, the outcome of the negotiations is unknown at this time; therefore, these financial statements do not include any adjustments or reclassifications related to the Chapter 9 Bankruptcy Case.

To the Commissioners
Jefferson County Commission
February 22, 2013

Accounting principles generally accepted in the United States of America for state and local governments require that the budgetary comparison information on pages 151 through 154 and the schedule of funding progress - defined benefit pension plan and other postemployment benefits plan on page 155 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The Commission has not presented management's discussion and analysis that the GASB has determined is necessary to supplement the basic financial statements. Such missing information, although not a part of the basic financial statements, is required by GASB who considers it to be an essential part of the financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. Our opinion on the basic financial statements is not affected by this missing information.

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. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States by us and the other auditors. In our opinion, 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, as discussed previously, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Warren Averett, LLC

Birmingham, Alabama

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and investments	$ 99,323	$ 15,698	$ 115,021
Patient accounts receivable, net	-	7,488	7,488
Estimated third-party payor settlements	-	402	402
Accounts receivable, net	5,940	18,788	24,728
Loans receivable, net	2,212	-	2,212
Taxes receivable, net	132,465	5,096	137,561
Other receivables	-	2,438	2,438
Due from (to) other governments	8,357	240	8,597
Inventories	-	1,303	1,303
Prepaid expenses	-	739	739
Deferred charges - issuance costs	11,970	46,594	58,564
Restricted assets - current	164,513	202,942	367,455
Total Current Assets	424,780	301,728	726,508
Noncurrent Assets			
Deferred charges - issuance costs	-	1	1
Advances due from (to) other funds	42,745	(42,745)	-
Loans receivable, net	21,570	-	21,570
Restricted assets	4,107	5,696	9,803
Assets internally designated for capital improvements or redemption of warrants	-	52,549	52,549
Capital assets:			
Depreciable assets, net	287,866	2,832,006	3,119,872
Nondepreciable assets	39,376	53,443	92,819
	395,664	2,900,950	3,296,614
	$ 820,444	$ 3,202,678	$ 4,023,122

See notes to financial statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Accounts payable	$ 23,981	$ 16,529	$ 40,510
Deposits payable	1,596	-	1,596
Deferred/unearned revenue	113,125	5,268	118,393
Accrued wages and benefits	4,202	1,194	5,396
Accrued interest	13,807	114,468	128,275
Debt service costs	7,894	125,959	133,853
Retainage payable	662	952	1,614
Noncurrent liabilities - portion due or payable within one year:			
Capital lease obligations	143	122	265
Estimated liability for compensated absences	8,418	2,899	11,317
Estimated claims liability	3,077	1,755	4,832
Warrants payable	1,097,095	3,137,413	4,234,508
Add: Unamortized premiums	32,434	6,304	38,738
Less: Deferred loss on refunding	-	(269,079)	(269,079)
	1,129,529	2,874,638	4,004,167
Total Current Liabilities	1,306,434	3,143,784	4,450,218
Noncurrent Liabilities			
Accrued arbitrage rebates	3,040	63	3,103
Capital lease obligations	863	178	1,041
Estimated liability for landfill closure and postclosure care costs	-	9,837	9,837
Estimated liability for other postemployment benefits	3,472	1,886	5,358
Estimated liability for compensated absences	10,043	3,664	13,707
Estimated litigation liability	5,000	-	5,000
Estimated claims liability	2,988	1,775	4,763
Warrants payable	-	415	415
Add: Unamortized premiums (discounts)	-	(1)	(1)
Less: Deferred loss on refunding	-	(3)	(3)
	-	411	411
Total Liabilities	1,331,840	3,161,598	4,493,438
Net Assets (Deficit)			
Investment in capital assets, net of related debt	287,657	174,045	461,702
Restricted for:			
Debt service or capital improvements	-	29,363	29,363
Debt service	115,599	41,500	157,099
Closure and postclosure care	-	1,993	1,993
Other purposes	76,299	1,759	78,058
Unrestricted	(990,951)	(207,580)	(1,198,531)
	$ (511,396)	$ 41,080	$ (470,316)

JEFFERSON COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Expenses	Indirect Expense Allocation	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Net (Expenses) Revenues and Changes in Net Assets Primary Government: Governmental Activities	Business-Type Activities	Total
Primary Government							
Governmental Activities:							
General government	$ 161,580	$ (12,632)	$ 26,036	$ 18,437	$ (104,475)	$ -	$ (104,475)
Public safety	80,576	326	5,372	1,026	(74,504)	-	(74,504)
Highways and roads	26,183	-	214	1,747	(24,222)	-	(24,222)
Health and welfare	41	496	-	1,361	824	-	824
Environmental services	2	-	-	-	(2)	-	(2)
Culture and recreation	286	-	-	-	(286)	-	(286)
Education - other	51	-	-	-	(51)	-	(51)
Interest and fiscal charges	52,369	-	-	-	(52,369)	-	(52,369)
Total Governmental Activities	321,088	(11,810)	31,622	22,571	(255,085)	-	(255,085)
Business-Type Activities:							
Cooper Green Hospital	95,047	4,607	29,845	-	-	(69,809)	(69,809)
Economic and Industrial Development Authority	978	-	-	-	-	(978)	(978)
Nursing Home operations	11,268	1,933	9,865	-	-	(3,336)	(3,336)
Landfill operations	3,055	14	-	-	-	(3,069)	(3,069)
Sanitary operations	299,983	5,256	154,405	-	-	(150,834)	(150,834)
Total Business-Type Activities	410,331	11,810	194,115	-	-	(228,026)	(228,026)
Total Primary Government	$ 731,419	$ -	$ 225,737	$ 22,571	(255,085)	(228,026)	(483,111)
General Revenues							
Taxes:							
Property taxes					103,524	4,702	108,226
Sales tax					163,912	-	163,912
Other taxes					29,288	-	29,288
Licenses and permits					17,830	-	17,830
Unrestricted investment earnings					2,708	1,451	4,159
Miscellaneous					40,961	11,211	52,172
Transfers					(56,184)	56,184	-
Total General Revenues and Transfers					302,039	73,548	375,587
Change in Net Assets					46,954	(154,478)	(107,524)
Net Assets (Deficit) - beginning of year, as previously reported					(552,405)	202,576	(349,829)
Prior Period Adjustments					(5,945)	(7,018)	(12,963)
Net Assets (Deficit) - beginning of year, as restated					(558,350)	195,558	(362,792)
Net Assets (Deficit) - end of year					$ (511,396)	$ 41,080	$ (470,316)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
BALANCE SHEET -
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	General Fund	Limited Obligation School Fund	Indigent Care Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	$ 79,880	$ -	$ 544	$ 1,254	$ 17,645	$ 99,323
Accounts receivable, net	5,904	-	-	-	36	5,940
Taxes receivable, net	75,452	14,320	6,624	36,069	-	132,465
Due from (to) other governments	332	-	516	416	7,093	8,357
Loans receivable, net	882	-	-	-	1,330	2,212
Restricted assets	2,354	136,895	1,752	-	27,619	168,620
Advances due from (to) other funds	29,862	-	-	-	12,883	42,745
	$ 194,666	$ 151,215	$ 9,436	$ 37,739	$ 66,606	$ 459,662
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 22,387	$ -	$ -	$ -	$ 1,594	$ 23,981
Deposits payable	1,596	-	-	-	-	1,596
Deferred/unearned revenue	75,294	-	-	37,739	92	113,125
Accrued wages and benefits	4,168	-	-	-	34	4,202
Accrued interest	-	907	-	-	5,898	6,805
Debt service costs	-	-	-	-	7,894	7,894
Retainage payable	347	-	-	-	315	662
Estimated liability for compensated absences	8,418	-	-	-	-	8,418
Estimated claims liability	3,077	-	-	-	-	3,077
Total Liabilities	115,287	907	-	37,739	15,827	169,760
Fund Balances (Deficit)						
Nonspendable	16,199	-	-	-	-	16,199
Restricted	2,354	150,308	9,436	-	44,943	207,041
Committed	38,050	-	-	-	20,271	58,321
Assigned	14,435	-	-	-	-	14,435
Unassigned	8,341	-	-	-	(14,435)	(6,094)
	79,379	150,308	9,436	-	50,779	289,902
	$ 194,666	$ 151,215	$ 9,436	$ 37,739	$ 66,606	$ 459,662

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2011
(IN THOUSANDS)

Total Fund Balances - Governmental Funds		$ 289,902
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.		327,242
Loans receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		21,570
Deferred amounts related to premiums on long-term liabilities are not reported in the funds.		(32,434)
Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds.		11,970
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	(1,097,095)	
Capital lease obligations	(1,006)	
Accrued arbitrage rebates	(3,040)	
Accrued interest	(7,002)	
Estimated liability for other postemployment benefits	(3,472)	
Estimated liability for compensated absences	(10,043)	
Estimated litigation liability	(5,000)	
Estimated claims liability	(2,988)	
Total long-term liabilities		(1,129,646)
Total Net Assets (Deficit) - Governmental Activities		$ (511,396)

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, 2011
(IN THOUSANDS)

	General Fund	Limited Obligation School Fund	Indigent Care Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$ 98,969	$ 87,774	$ 43,774	$ 40,405	$ -	$ 270,922
Licenses and permits	17,830	-	-	-	-	17,830
Intergovernmental	35,852	-	-	841	11,680	48,373
Charges for services, net	31,021	-	-	-	601	31,622
Miscellaneous	34,389	-	11	-	12,340	46,740
Interest and investment income	1,871	160	-	51	626	2,708
	219,932	87,934	43,785	41,297	25,247	418,195
Expenditures						
Current:						
General government	136,754	29	-	-	6,461	143,244
Public safety	62,274	-	-	-	18,003	80,277
Highway and roads	19,890	-	-	-	15	19,905
Health and welfare	-	-	-	-	41	41
Environmental services	-	-	-	-	-	-
Culture and recreation	286	-	-	-	-	286
Education - other	1	50	-	-	-	51
Capital outlay	1,607	-	-	-	12,475	14,082
Indirect expenses	(12,632)	-	-	-	822	(11,810)
Debt service:						
Principal retirement	357	31,005	-	-	15,402	46,764
Interest and fiscal charges	25	40,691	-	-	14,263	54,979
	208,562	71,775	-	-	67,482	347,819
Excess (Deficiency) of Revenues over Expenditures	11,370	16,159	43,785	41,297	(42,235)	70,376
Other Financing Sources (Uses)						
Proceeds from capital leases	1,213	-	-	-	-	1,213
Transfers in	50	-	-	2,102	61,183	63,335
Transfers out	(18,735)	-	(42,952)	(43,399)	(14,489)	(119,575)
	(17,472)	-	(42,952)	(41,297)	46,694	(55,027)
Net Changes in Fund Balances	(6,102)	16,159	833	-	4,459	15,349
Fund Balances - beginning of year, as previously reported	84,579	134,149	8,603	-	46,320	273,651
Prior Period Adjustments	902	-	-	-	-	902
Fund Balances - beginning of year, as restated	85,481	134,149	8,603	-	46,320	274,553
Fund Balances - end of year	$ 79,379	$ 150,308	$ 9,436	$ -	$ 50,779	$ 289,902

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, 2011
(IN THOUSANDS)

Net Changes in Fund Balances - Governmental Funds		$ 15,349
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 depreciation ($18,400,000) exceeded capital outlays ($14,082,000) in the current period.		(4,318)
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		(924)
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	2,337	
Amortization of bond issuance costs	(825)	
Arbitrage rebates	785	
Repayments of principal - capital lease obligations	2,569	
Repayments of principal - warrants payable	44,195	49,061
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 noncurrent portion of accrued interest	315	
Increase in noncurrent portion of other postemployment benefits	(1,817)	
Decrease in noncurrent portion of compensated absences	368	
Increase in noncurrent portion of estimated litigation liability	(5,000)	
Increase in noncurrent portion of claims liability	(69)	(6,203)
Governmental funds report proceeds from capital leases and the sale of capital assets as other financial sources. However, the statement of activities reports disposals, transfers and other activities related to capital assets as gains or losses of capital assets:		
Proceeds from capital leases	(1,213)	
Transfer of capital assets	56	
Gain (loss) on disposal of capital assets	(4,854)	(6,011)
Change in Net Assets - Governmental Activities		$ 46,954

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Current Assets				
Cash and investments	$ 2,576	$ 8,707	$ 4,415	$ 15,698
Patient accounts receivable, net	6,543	-	945	7,488
Accounts receivable, net	-	18,619	169	18,788
Other receivables	2,438	-	-	2,438
Estimated third-party payor settlements	402	-	-	402
Taxes receivable, net	-	5,096	-	5,096
Due from (to) other governments	-	1,540	(1,300)	240
Inventories	1,298	-	5	1,303
Prepaid expenses	739	-	-	739
Deferred charges - issuance costs	-	46,591	3	46,594
Restricted assets - current	-	202,942	-	202,942
Total Current Assets	13,996	283,495	4,237	301,728
Noncurrent Assets				
Restricted assets	1,759	56	3,881	5,696
Assets internally designated for capital improvements or redemption of warrants	-	52,549	-	52,549
Advances due from (to) other funds	-	(10,628)	(32,117)	(42,745)
Deferred charges - issuance costs	-	-	1	1
Capital assets:				
Depreciable assets, net	35,781	2,763,883	32,342	2,832,006
Nondepreciable assets	1,090	31,672	20,681	53,443
	38,630	2,837,532	24,788	2,900,950
	$ 52,626	$ 3,121,027	$ 29,025	$ 3,202,678

See notes to financial statements.

LIABILITIES AND NET ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Current Liabilities				
Accounts payable	$ 8,439	$ 7,407	$ 683	$ 16,529
Accrued wages and benefits	732	396	66	1,194
Accrued interest	-	114,465	3	114,468
Debt service costs	-	125,959	-	125,959
Retainage payable	-	952	-	952
Deferred/unearned revenue	-	5,268	-	5,268
Estimated claims liability	972	620	163	1,755
Estimated liability for compensated absences	1,300	1,458	141	2,899
Current portion of capital lease obligations	122	-	-	122
Warrants payable	-	3,135,978	1,435	3,137,413
Add: Unamortized premiums (discounts)	-	6,305	(1)	6,304
Less: Deferred loss on refunding	-	(269,070)	(9)	(269,079)
	-	2,873,213	1,425	2,874,638
Total Current Liabilities	11,565	3,129,738	2,481	3,143,784
Noncurrent Liabilities				
Warrants payable	-	-	415	415
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(3)	(3)
	-	-	411	411
Capital lease obligations	178	-	-	178
Accrued arbitrage rebates	-	63	-	63
Estimated liability for landfill closure and postclosure care costs	-	-	9,837	9,837
Estimated claims liability	965	693	117	1,775
Estimated liability for other postemployment benefits	1,074	666	146	1,886
Estimated liability for compensated absences	1,674	1,835	155	3,664
Total Liabilities	15,456	3,132,995	13,147	3,161,598
Net Assets (Deficit)				
Invested in capital assets, net of related debt	36,572	102,900	34,573	174,045
Restricted for:				
Debt service or capital improvements	-	29,363	-	29,363
Debt service	-	39,612	1,888	41,500
Closure and postclosure care	-	-	1,993	1,993
Other purposes	1,759	-	-	1,759
Unrestricted	(1,161)	(183,843)	(22,576)	(207,580)
	$ 37,170	$ (11,968)	$ 15,878	$ 41,080

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS - PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Operating Revenues				
Taxes	$ -	$ 4,702	$ -	$ 4,702
Intergovernmental	-	103	-	103
Charges for services, net	29,845	154,302	9,865	194,012
Other operating revenue	9,658	4,109	2,112	15,879
	39,503	163,216	11,977	214,696
Operating Expenses				
Salaries	34,254	19,628	4,117	57,999
Employee benefits and payroll taxes	8,715	7,187	1,332	17,234
Materials and supplies	16,400	2,532	1,059	19,991
Utilities	1,585	8,088	822	10,495
Outside services	12,463	16,238	3,128	31,829
Services from other hospitals	6,281	-	-	6,281
Jefferson Clinic	10,819	-	-	10,819
Office expenses	767	1,485	209	2,461
Depreciation	2,828	131,971	2,545	137,344
Closure and postclosure care	-	-	178	178
Indirect expenses	4,607	5,256	1,947	11,810
Miscellaneous	923	316	723	1,962
	99,642	192,701	16,060	308,403
Operating Loss	(60,139)	(29,485)	(4,083)	(93,707)
Nonoperating Revenues (Expenses)				
Interest expense, net	(12)	(97,624)	(1,068)	(98,704)
Interest revenue	49	1,390	12	1,451
Grant income	1,282	-	-	1,282
Amortization of warrant related costs	-	(14,914)	(120)	(15,034)
Loss on impairment of capital assets	-	-	(4,684)	(4,684)
Gain (loss) on sale or retirement of capital assets	(207)	(1,308)	249	(1,266)
	1,112	(112,456)	(5,611)	(116,955)
Operating Transfers				
Transfers in	53,568	-	2,716	56,284
Transfers out	(44)	-	-	(44)
Capital contributions - transfer of capital assets	-	(56)	-	(56)
	53,524	(56)	2,716	56,184
Change in Net Assets	(5,503)	(141,997)	(6,978)	(154,478)
Net Assets - beginning of year, as previously reported	43,185	138,002	21,389	202,576
Prior Period Adjustments	(512)	(7,973)	1,467	(7,018)
Net Assets - beginning of year, as restated	42,673	130,029	22,856	195,558
Net Assets - end of year	$ 37,170	$ (11,968)	$ 15,878	$ 41,080

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Cash Flows from Operating Activities				
Cash received from services	$ 32,509	$ 155,925	$ 10,702	$ 199,136
Cash payments to employees	(43,031)	(26,972)	(5,719)	(75,722)
Cash payments for goods and services	(48,845)	(30,757)	(6,807)	(86,409)
Other receipts and payments, net	8,372	20,409	(358)	28,423
Net Cash Provided (Used) by Operating Activities	(50,995)	118,605	(2,182)	65,428
Cash Flows from Noncapital Financing Activities				
Grant income	1,282	-	-	1,282
Operating transfers in	53,568	-	2,716	56,284
Operating transfers out	(44)	-	-	(44)
Net Cash Provided by Noncapital Financing Activities	54,806	-	2,716	57,522
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(1,224)	(15,022)	(312)	(16,558)
Repayment of capital lease obligations	(173)	-	-	(173)
Sale of capital assets	-	776	695	1,471
Interest paid	(12)	(73,727)	(1,070)	(74,809)
Principal payments on warrants	-	(26,345)	(1,387)	(27,732)
Net Cash Used by Capital and Related Financing Activities	(1,409)	(114,318)	(2,074)	(117,801)
Cash Flows from Investing Activities				
Interest received	49	1,390	12	1,451
Miscellaneous	(1)	(2)	1,537	1,534
Net Cash Provided by Investing Activities	48	1,388	1,549	2,985
Change in Cash and Investments	2,450	5,675	9	8,134
Cash and Investments - beginning of year	1,885	258,579	8,287	268,751
Cash and Investments - end of year	$ 4,335	$ 264,254	$ 8,296	$ 276,885
Displayed As				
Cash and investments	$ 2,576	$ 8,707	$ 4,415	$ 15,698
Restricted assets - current cash and investments	-	202,942	-	202,942
Restricted assets - noncurrent cash and investments	1,759	56	3,881	5,696
Assets internally designated for capital improvements or redemption of warrants - noncurrent cash	-	52,549	-	52,549
	$ 4,335	$ 264,254	$ 8,296	$ 276,885

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)
(Continued)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (60,139)	$ (29,485)	$ (4,083)	$ (93,707)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	2,828	131,971	2,545	137,344
Provision for bad debts	12,419	747	992	14,158
Change in patient accounts receivable	(9,755)	-	(792)	(10,547)
Change in accounts receivable	-	655	(11)	644
Change in other receivables	(1,286)	-	-	(1,286)
Change in estimated third-party payor settlements	-	-	-	-
Change in taxes receivable, net	-	249	-	249
Change in due from (to) other governments	-	222	-	222
Change in inventories	28	475	35	538
Change in prepaid expenses	16	-	45	61
Change in advances due from (to) other funds	-	10,628	(1,432)	9,196
Change in accounts payable	4,725	2,683	278	7,686
Change in accrued wages and benefits	(902)	(659)	(220)	(1,781)
Change in retainage payable	-	896	-	896
Change in deferred/unearned revenue	-	(280)	-	(280)
Change in estimated claims liability	230	63	(64)	229
Change in estimated liability for compensated absences	279	91	(127)	243
Change in estimated liability for landfill closure and postclosure care costs	-	-	576	576
Change in estimated liability for other postemployment benefits	562	349	76	987
	9,144	148,090	1,901	159,135
Net Cash Provided (Used) by Operating Activities	$ (50,995)	$ 118,605	$ (2,182)	$ 65,428
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
(Loss) gain on sale or retirement of capital assets	$ (207)	$ (1,308)	$ 249	$ (1,266)
Capital assets financed by capital lease obligations	$ 215	$ -	$ -	$ 215
Transfers of capital assets to governmental fund	$ -	$ (56)	$ -	$ (56)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS -
AGENCY FUND
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS		Agency Fund
Current Assets		
Cash and investments	$	832
Loans receivable, net		221
	$	1,053
LIABILITIES		
Due to other governments	$	1,053

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Jefferson County Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, except that management has not capitalized certain donated capital assets or included related current disclosures due to the lack of available 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.

On September 22, 2010, John S. Young, Jr., LLC was appointed by the Circuit Court of Jefferson County, Alabama, Birmingham Division, as Receiver over the Sanitary Operations Fund. Financial activity throughout the fiscal year is included in the accompanying financial statements. On November 9, 2011, the Commission filed a petition for relief under Chapter 9 of the United States Bankruptcy Code in the United States Bankruptcy Court (the Bankruptcy Case). On January 6, 2012, U.S. Bankruptcy Judge Thomas Bennett ruled that the automatic stay of bankruptcy protection applies to the Receiver. A plan of reorganization has not been submitted to the Bankruptcy Court through the date of these financial statements and no adjustments have been recorded to the assets and liabilities reported herein. See Notes S, U and V for further discussion.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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 2011, 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting and Financial Statement Presentation
The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. As a general rule, revenues are recorded when earned, and expenses are recorded when liabilities are incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Commission gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Revenue from property taxes is recognized in the fiscal year for which the taxes are both due and collectible and available to fund operations.

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

Other nonmajor governmental funds are as follows:

- *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.
- *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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission currently reports enterprise funds as its only type of proprietary fund. Enterprise funds report the activities for which fees are charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees. Proprietary funds distinguish operating revenues and expenses from nonoperating items in their statement of revenues, expenses and changes in fund net assets. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Commission's enterprise funds are charges to customers for the purchase or use of the proprietary fund's principal product or service. Operating expenses for the Commission's enterprise funds include the cost of providing those products or services, administrative expenses, depreciation on capital assets and closure and postclosure care costs. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

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

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

Other nonmajor enterprise funds are as follows:

- *Landfill Operations Fund* - This fund is used to account for the operations of the Commission's landfill systems. Revenues are generated primarily through user charges and lease payments from a third-party lessee.
- *Jefferson Rehabilitation and Health Center Fund* - This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

The Commission currently reports fiduciary funds as its only type of agency fund. Fiduciary funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations or other government.

The following fiduciary fund is presented with the Commission's financial statements:

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Net Assets/Fund Balances

Deposits and Investments

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

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

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

Receivables

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

	Enterprise Funds
Patient receivables	$ 27,656,000
Allowance accounts	20,168,000
Net patient receivables	$ 7,488,000

Allowances for uncollectible accounts on accounts receivable totaled $18,516,000 at September 30, 2011.

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 $21,313,000 (net of an allowance of $6,752,000) at September 30, 2011.

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 $936,000 at September 30, 2011.

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, 2011, the balance of these loans receivable for the City of Birmingham totaled $221,000, which is presented in the statement of fiduciary net assets.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Other miscellaneous loans were issued by the Commission with varying maturities and interest rates. These loans totaled $1,533,000 (net of an allowance of $153,000) at September 30, 2011.

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. In 2011, the government-wide statement of activities includes $966,000 in inventory obsolescence.

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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital Assets

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

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

Item	Capitalization Threshold	Estimated Useful Life
Buildings	$ 100,000	40 years
Equipment and furniture	5,000	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

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 2011 amounted to $990,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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 a decline in service utility for its nursing home capital assets has occurred and, accordingly, an impairment charge of $4,684,000 has been recorded in the Jefferson Rehabilitation and Health Center Fund's statement of revenues, expenses and changes in fund net assets. The Commission has not determined that any other capital asset impairment exists at September 30, 2011.

Transactions between Funds

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Estimated Claims Liabilities

The Commission establishes claims liabilities for health insurance, general, auto and workers' compensation self-insured activities based on estimates of the ultimate cost of claims (including future claims adjustment expenses) that have been reported but not settled, and of claims that have been incurred but not reported. The length of time for which such costs must be estimated varies depending on the coverage involved. Estimated amounts of reinsurance recoverable on unpaid claims are deducted from the liability for unpaid claims. Because actual claims costs depend on such complex factors as inflation, changes in doctrines of legal liability and damage awards, the process used in computing claims liabilities does not necessarily result in an exact amount, particularly for coverages such as general liability. Claims liabilities are recomputed periodically using a variety of actuarial and statistical techniques to produce current estimates that reflect recent settlements, claims 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

The Commission has received Notices of Events of Default from the Trustee(s) on certain warrant obligations under the terms of the related trust indenture(s). In addition, pursuant to its agreements with certain Liquidity Providers, certain Series Warrants are payable on an accelerated schedule. See Note J for a discussion of the Events of Default regarding the warrant agreements and the specific series of warrants where the payments have been accelerated. Also, see Note V for subsequent events.

Derivative Instruments/Interest Rate Swap Agreements
The Commission entered into several interest rate swap agreements in prior years in relation to the warrant agreements. All such agreements were terminated prior to September 30, 2011. As a result, the estimated termination fees plus any related accrued interest (which represents the estimated fair value at the termination date) 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.

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

Vacation Leave

Length of Service	Vacation Leave Earned (Per Month)
0-12 years	1 day
12-25 years	1 ½ days
Over 25 years	2 days

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

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, 2011, the liability for accrued vacation and compensatory leave included in the government-wide statement of net assets is approximately $16,872,000 of which $12,536,000 is reported in the government activities and $4,336,000 is reported in the business-type activities. Of this amount, an estimated $10,539,000 is payable within a year.

As of September 30, 2011, the liability for accrued sick leave included in the government-wide statement of net assets is approximately $8,152,000. Of this amount, $5,925,000 is reported in the government activities and $2,227,000 is reported in the business-type activities. Due and payable within one year of September 30, 2011, is approximately $778,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Legal Fees and Costs Associated with Bankruptcy Proceedings
Legal fees for the Commission and costs associated with bankruptcy proceedings are expensed as incurred and are included in operating expenses in the accompanying financial statements. No estimate is made for costs associated with bankruptcy proceedings or for legal fees that may be incurred related to potential loss contingencies.

Net Assets/Fund Balances
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 balances are reported in the fund financial statements. The fund balance amounts for governmental funds have been reclassified in accordance with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. As a result, amounts previously reported as reserved and unreserved are now reported as nonspendable, restricted, committed, assigned or unassigned.

- *Nonspendable* - Items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts or long-term portions of loans or notes receivable) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- *Restricted* - Constraints are placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *Committed* - Items can be used only for specific purposes pursuant to constraints imposed by a formal action of the Commissioners. This formal action is the passage of a resolution specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.
- *Assigned* - Constraints are placed upon the use of the resources by a responsible official's request for a specific purpose but are neither restricted nor committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- *Unassigned* - The residual amount of the General Fund that is not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

When both restricted and unrestricted amounts are available for use, Commission policy is to use restricted amounts first, with unrestricted resources utilized as needed. In the case of unrestricted resources, the policy is to use committed amounts first, followed by assigned amounts, then unassigned amounts as needed.

Reclassifications
Certain amounts in the 2010 financial statements have been reclassified to conform to 2011 presentation. Such reclassifications had no material effect on the previously reported financial position or changes in fund balance.

Subsequent Events
Management has evaluated subsequent events and their potential effects on these financial statements through the date the financial statements were issued.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets
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.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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.

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, Limited Obligation School Fund, Indigent Care Fund and Bridge and Public Building Fund are presented in the required supplementary information section.

Deficit Fund Balances/Net Assets of Individual Funds

At September 30, 2011, the Sanitary Operations Fund had a deficit fund balance of $11,968,000.

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, 2010, as previously reported	$ (552,405)	$ 202,576	$ (349,829)
Record indirect cost allocation	(1,537)	1,537	-
Record other postemployment benefits obligation	(1,655)	(899)	(2,554)
Correct depreciation expense	(2,678)	(7,656)	(10,334)
Other	(75)	-	(75)
Net assets, September 30, 2010, as restated	$ (558,350)	$ 195,558	$ (362,792)

NOTE C - RESTATEMENTS - Continued

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

	(In Thousands) General Fund
Fund balance, September 30, 2010, as previously reported	$ 84,579
Record noncurrent portion of estimated claims liability	2,919
Record indirect cost allocation	(1,537)
Other	(480)
Fund balance, September 30, 2010, as restated	$ 85,481

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

	(In Thousands)			
	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Net assets, September 30, 2010, as previously reported	$ 43,185	$ 138,002	$ 21,389	$ 202,576
Record other postemployment benefit obligations	(512)	(317)	(70)	(899)
Correct depreciation expense	-	(7,656)	-	(7,656)
Record indirect cost allocation	-	-	1,537	1,537
Net assets, September 30, 2010, as restated	$ 42,673	$ 130,029	$ 22,856	$ 195,558

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 recover 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 Deposit 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.

Investments

As of September 30, 2011, the components of cash and investments and restricted assets are:

	(In Thousands)		
	Governmental Activities	**Business-Type Activities**	**Total**
Petty cash	$ 100	$ 5	$ 105
Equity in pooled investments	98,517	6,129	104,646
Cash and investments	706	9,564	10,270
Assets internally designated for capital improvements or redemption of warrants	-	52,549	52,549
Restricted assets held for:			
Closure and postclosure care	-	1,993	1,993
Retainage	347	56	403
Debt service	124,736	41,500	166,236
Capital improvements	39,777	133,967	173,744
Debt service or capital improvements	-	29,363	29,363
Other purposes	3,760	1,759	5,519
Total restricted assets	168,620	208,638	377,258
Total cash and investments	$ 267,943	$ 276,885	$ 544,828

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2011, the Commission had the following deposits and investments:

	(In Thousands) Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	$ 214,383	$ 78,064	$ 292,447
Investments:			
U.S. Government obligations	48,944	76,114	125,058
Collateralized mortgage obligations	16	2,384	2,400
Mortgage-backed securities	29	4,458	4,487
Guaranteed investment contracts	-	814	814
U.S. corporate bonds	4,224	1,000	5,224
Fixed income money market mutual funds	-	113,995	113,995
Total investments	53,213	198,765	251,978
Restricted assets held for retainage	347	56	403
	$ 267,943	$ 276,885	$ 544,828

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 $403,000, 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.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2011, the Commission's investments had the following maturities (in thousands):

		Investment Maturities (in Years)			
	Fair Value	Less than 1	1-5	6-10	Thereafter
U.S. Government obligations	$ 125,058	$ 62,697	$ 40,151	$ 22,210	$ -
Collateralized mortgage obligations	2,400	-	1,440	840	120
Mortgage-backed securities	4,487	-	-	2,468	2,019
Guaranteed investment contracts	814	814	-	-	-
U.S. corporate bonds	5,224	5,224	-	-	-
Fixed income money market mutual funds	113,995	113,995	-	-	-
	$ 251,978	$ 182,730	$ 41,591	$ 25,518	$ 2,139

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.

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, 2011.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

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 Ratings Services (S&P) and Moody's Investors Service, Inc. (Moody's). As of September 30, 2011, the Commission's investments in 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 $251,978,000 in investments at September 30, 2011, $29,739,000 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.

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2011, was as follows:

	(In Thousands)				
Governmental Activities	Balance at October 1, 2010 Restated	Additions	Disposals	Transfers/ Reclassifications	Balance at September 30, 2011
Nondepreciable capital assets:					
Land	$ 20,450	$ -	$ -	$ -	$ 20,450
Construction in progress	13,756	11,475	(2,967)	(3,338)	18,926
	34,206	11,475	(2,967)	(3,338)	39,376
Depreciable capital assets:					
Buildings	380,143	9	(44)	16,150	396,258
Improvements other than land/buildings	175,909	-	(77)	(11,635)	164,197
Maintenance equipment	12,565	15	(5,148)	(1,097)	6,335
Motor vehicle (nonfleet)	16,904	-	(206)	-	16,698
Motor vehicle (fleet)	38,941	112	(478)	-	38,575
Equipment under capital lease	14,097	1,213	-	-	15,310
Miscellaneous equipment	48,486	1,230	(9,703)	-	40,013
Office furniture and fixtures	4,279	28	(3,087)	-	1,220
	691,324	2,607	(18,743)	3,418	678,606
Less accumulated depreciation for:					
Buildings	(190,969)	(6,036)	85	(813)	(197,733)
Improvements other than land/buildings	(76,016)	(6,386)	82	610	(81,710)
Maintenance equipment	(12,525)	(110)	5,080	177	(7,378)
Motor vehicle (nonfleet)	(15,252)	(524)	200	78	(15,498)
Motor vehicle (fleet)	(35,568)	(1,806)	474	(308)	(37,208)
Equipment under capital lease	(12,471)	(1,635)	-	-	(14,106)
Miscellaneous equipment	(42,972)	(1,837)	8,393	232	(36,184)
Office furniture and fixtures	(3,399)	(66)	2,542	-	(923)
	(389,172)	(18,400)	16,856	(24)	(390,740)
Total depreciable capital assets, net	302,152	(15,793)	(1,887)	3,394	287,866
Total capital assets, net	$ 336,358	$ (4,318)	$ (4,854)	$ 56	$ 327,242

On October 1, 2010, the Commission adopted a policy to write off capital assets with a cost less than $5,000. As a result, the Commission wrote off costs of $26,222,000, of which government-type activities represent $17,228,000 and business-type activities represent $8,994,000, and reported a loss of $3,346,000, of which government-type activities represent $1,944,000 and business-type activities represent $1,402,000.

NOTE E - CAPITAL ASSETS - Continued

(In Thousands)

Business-Type Activities	Balance at October 1, 2010 Restated	Additions	Disposals/ Impairment	Transfers/ Reclassifications	Balance at September 30, 2011
Nondepreciable capital assets:					
Land	$ 44,385	$ 90	$ (1,111)	$ -	$ 43,364
Construction in progress	53,852	11,865	41	(55,679)	10,079
	98,237	11,955	(1,070)	(55,679)	53,443
Depreciable capital assets:					
Buildings	1,089,513	-	(89)	31,325	1,120,749
Improvements other than land/buildings	3,312,394	1,303	(1,254)	24,364	3,336,807
Maintenance equipment	7,438	33	(1,466)	-	6,005
Motor vehicle (nonfleet)	5,080	2	(179)	-	4,903
Motor vehicle (fleet)	12,793	1,735	(160)	-	14,368
Equipment under capital lease	2,263	215	-	-	2,478
Miscellaneous equipment	21,100	1,507	(3,940)	(90)	18,577
Office furniture and fixtures	10,116	23	(2,043)	-	8,096
	4,460,697	4,818	(9,131)	55,599	4,511,983
Less accumulated depreciation for:					
Buildings	(289,479)	(26,534)	(4,656)	(15,984)	(336,653)
Improvements other than land/buildings	(1,204,184)	(107,900)	331	16,216	(1,295,537)
Maintenance equipment	(7,141)	(102)	1,407	-	(5,836)
Motor vehicle (nonfleet)	(4,497)	(170)	158	-	(4,509)
Motor vehicle (fleet)	(10,654)	(994)	157	(50)	(11,541)
Equipment under capital lease	(1,859)	(154)	-	-	(2,013)
Miscellaneous equipment	(17,634)	(1,469)	3,395	(158)	(15,866)
Office furniture and fixtures	(9,989)	(21)	1,988	-	(8,022)
	(1,545,437)	(137,344)	2,780	24	(1,679,977)
Total depreciable capital assets, net	2,915,260	(132,526)	(6,351)	55,623	2,832,006
Total capital assets, net	$ 3,013,497	$ (120,571)	$ (7,421)	$ (56)	$ 2,885,449

Included in the Business-Type Activities' Disposals/Impairment column is impairment of the Jefferson Rehabilitation and Health Center's capital assets of $4,684,000. The net book value of landfill operations capital assets leased to a third party at September 30, 2011, is $33,262,000. See Note H for discussion of operating lease. A valuation of certain capital assets donated to the Commission in 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.

NOTE E - CAPITAL ASSETS - Continued

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

	(In Thousands)
Governmental activities:	
General government	$ 11,821
Public safety	299
Highways and roads	6,278
Environmental services	2
Total depreciation expense - governmental activities	$ 18,400
Business-type activities:	
Cooper Green Mercy Hospital	$ 2,828
Jefferson Rehabilitation and Health Center	395
Landfill Operations	1,861
Sanitary Operations	131,971
Industrial Development Authority	289
Total depreciation expense - business-type activities	$ 137,344

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, 2011, the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

	(In Thousands)		
	Unavailable	Unearned	Total
Ad valorem taxes - property	$ 111,614	$ -	$ 111,614
Ad valorem taxes - other	-	4,457	4,457
Grant-related reimbursements	92	-	92
Business privilege tax	2,230	-	2,230
Total deferred/unearned revenue	$ 113,936	$ 4,457	$ 118,393

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, 2011, amounts paid by the Commission totaled $1,239,000 for governmental activities and $776,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2011, are as follows:

	(In Thousands)		
Year Ending September 30,	**Facilities**	**Equipment**	**Total**
2012	$ 685	$ 891	$ 1,576
2013	656	-	656
2014	664	-	664
2015	672	-	672
2016	680	-	680
2017-2021	3,579	-	3,579
2022-2026	1,075	-	1,075
Thereafter	215	-	215
	$ 8,226	$ 891	$ 9,117

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. On April 26, 2011, the Commission entered into a lease agreement to acquire a tax collection software solution at a cost of $1,213,000. The lease agreements qualify as capital leases for accounting purposes and have been recorded in the General Fund and 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. Under the terms of the tax collection software lease, the Commission is required to make monthly payments of $21,240. Amortization of the capital leases is included in depreciation expense for governmental activities.

NOTE G - LEASE OBLIGATIONS - Continued

The Commission also entered into seven lease agreements at various dates to acquire major medical equipment at a cost of $2,478,000. 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 $46,150. 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, 2011, are as follows:

	(In Thousands)	
Year Ending September 30,	**Governmental Activities**	**Business-Type Activities**
2012	$ 192	$ 135
2013	302	90
2014	255	90
2015	255	13
2016	127	-
Total minimum lease payments	1,131	328
Less amount representing interest	125	28
Present value of minimum lease payments	$ 1,006	$ 300

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, 2011:

2012	$ 918,000
2013	918,000
2014	918,000
2015	918,000
2016	918,000
Thereafter	45,211,500
	$ 49,801,500

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 2011 of $1,266,000 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.

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS - Continued

The recorded liability for landfill closure and postclosure care costs is $9,837,000 as of September 30, 2011. This estimate was based on 87-percent usage (filled) of the Jefferson County Landfill Number 1, 20-percent usage (filled) of the Jefferson County Landfill Number 1 Inert Cell, 91-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 costs of closure and postclosure care remaining to be recognized and the estimated remaining useful life of the landfill at September 30, 2011, are $2,451,000 and 29 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 $1,993,000 as of September 30, 2011, and are presented as noncurrent restricted assets on the accompanying statement of net assets under business-type activities. In accordance with Alabama Department of Environmental Management (ADEM) regulations, the Commission is required to provide financial assurance for closure and postclosure care costs annually. At September 30, 2011, and through the date of the audit report, the Commission was not in compliance with the ADEM requirement.

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, 2011. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

NOTE J - WARRANTS PAYABLE

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

NOTE J - WARRANTS PAYABLE - Continued

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

BUSINESS-TYPE ACTIVITIES

Beginning prior to 1992, the Commission issued various warrants for sewer related capital projects and improvements. The Commission entered into a Trust Indenture (the Indenture) (as supplemented and amended) dated February 1, 1997, between Jefferson County, Alabama and AmSouth Bank of Alabama (AmSouth Bank), as Trustee, for the general purpose of refunding warrants outstanding or obtaining 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) (formerly 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 events subsequent to year end that may impact the warrants payable.

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

NOTE J - WARRANTS PAYABLE - Continued

GOVERNMENTAL ACTIVITIES

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 incurred a series of ratings downgrades and filed Chapter 11 bankruptcy in November 2010 as discussed further below.

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 2011, 2010 or 2009.

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 Flows
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.

Warrants payable consist of the following at September 30, 2011 (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		11,010

NOTE J - WARRANTS PAYABLE - Continued

Sewer Revenue Capital Improvement Warrants, Series 2002-A, with interest paid monthly at variable interest rates (6.25% at September 30, 2011) and accelerated principal payments due 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 3.51% at September 30, 2011) 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	15,280
Sewer Revenue Refunding Warrants, Series 2003-B, with interest paid monthly at a fixed rate of 5.25% on $95,845, a variable interest rate on $281,260 and 35-day auction rates on $723,725 (average rate of 2.51% at September 30, 2011) 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	1,100,830

NOTE J - WARRANTS PAYABLE - Continued

Sewer Revenue Refunding Warrants, Series 2003-C, with interest paid monthly at 35-day auction rates (average rate of 0.57% at September 30, 2011) and annual principal payments from year 2010 through year 2042	1,043,625
	3,135,978
Governmental Activities:	
General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates, computed using the Weekly Rate Mode (average rate of 5.32% at September 30, 2011) 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	46,185
General Obligation Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 3.40% to 5.00% and annual principal payments from years 2011 to 2024	49,335
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	534,400

NOTE J - WARRANTS PAYABLE - Continued

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 2.224% at September 30, 2011) and annual principal payments from years 2006 to 2027	279,675
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	82,500
	1,097,095
	4,233,073
Add unamortized net premiums (discounts) (net of current portion of $38,739)	-
Less deferred loss from early extinguishment (net of current portion of $269,070)	-
Less amounts due within one year (including acceleration of certain warrant payments and all warrants in default that may be payable on demand)	4,233,073
Warrants payable - noncurrent, net	$ -

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 within the Business-Type activities.

NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of the warrants issued by the Commission, including those outstanding as of September 30, 2011.

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 and Series 2003-C Warrants, as described below. The Series 1997-A Warrants have an outstanding balance of $57,030 at September 30, 2011.

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.

NOTE J - WARRANTS PAYABLE - Continued

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

Series 1997-D and Series 1999-A Warrants

Under the First Supplemental Indenture dated March 1, 1997, between Jefferson County and AmSouth Bank and the Second Supplemental Indenture dated March 1, 1999, between Jefferson County and The Bank of New York Mellon, as successor to AmSouth Bank, the Commission issued the tax-exempt Sewer Revenue Warrants and Sewer Revenue Capital Improvement Warrants, Series 1997-D and Series 1999-A in principal amounts of $296,395 and $952,695, respectively. The purpose of the issues was for sewer system capital improvements. Both issues were subsequently refunded by Series 2002-C, 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, Series 2003-B and Series 2003-C Warrants, as described below. The Series 2001-A Warrants have an outstanding balance of $11,010 at September 30, 2011. 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, 2011. The Series 2002-C Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

NOTE J - WARRANTS PAYABLE - Continued

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

Pursuant to its agreement with the Liquidity Provider under the Standby Warrant Purchase Agreement, the Commission was required to redeem the repurchased Series 2002-A Warrants on an accelerated schedule of 12 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, 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, 2011.

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 and were fully refunded by the Series 2003-B 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).

NOTE J - WARRANTS PAYABLE - Continued

The Series 2002-C Warrants issued included $442,400 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.

The Series 2002-C Warrants have an outstanding balance of $806,738 at September 30, 2011 ($409,638 Variable Rate Demand Warrants and $397,100 of auction rate warrants).

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

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2002-C Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, 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 currently payable at September 30, 2011, to Syncora and the Liquidity Providers is $358,433.

<u>Series 2002-D Warrants</u>

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

NOTE J - WARRANTS PAYABLE - Continued

Series 2003-A Warrants

The Commission issued a $41,820 taxable Sewer Revenue Refunding Warrant, Series 2003-A as evidenced by the Eighth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of January 1, 2003. This warrant was issued for the purpose of refunding $41,820 (remaining balance) of the Series 1997-C Warrants. The Series 1997-C Warrant was canceled and, due to the warrant 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 $15,280 at September 30, 2011.

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 issued 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 (fixed rate), Syncora (variable rate) and FGIC (auction rate) pursuant to bond insurance policies issued simultaneously with the warrants.

The Series 2003-B Warrants have an outstanding balance of $1,100,830 at September 30, 2011.

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. 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.

NOTE J - WARRANTS PAYABLE - Continued

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2003-B Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, 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, 2011, to Syncora and the Liquidity Providers is $246,103.

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 $1,043,625 at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

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 GO Series 2001-A Warrants were repaid during the year, and there was no outstanding balance at September 30, 2011.

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, 2011. Approximately $19,200 of the original issue was used to refund debt for the Landfill Operations Fund, of which $16,800 is the outstanding balance at September 30, 2011. The interfund balance due from the Landfill Operations Fund to the Debt Service Fund, related to interest expense, at September 30, 2011, is $900.

Standby Warrant Purchase Agreements with Morgan Guaranty Trust Company of New York (a wholly-owned subsidiary of JPMorgan Chase & Co.) and Bayerische Landesbank Gironzentrale (GO Liquidity Providers), as discussed further below, provide for the purchase of Series 2001-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreement. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the GO Liquidity Providers repurchased the GO Series 2001-B Warrants during March 2008.

NOTE J - WARRANTS PAYABLE - Continued

Pursuant to its agreements with the GO Liquidity Providers, the Commission was required to redeem the GO Series 2001-B Warrants on an accelerated schedule of six equal semiannual payments beginning six months from the date of purchase (2008). 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 in detail below.

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 $46,185 at September 30, 2011.

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 $49,335 at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

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), between the Commission and U.S. Bank. 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 of 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 $534,400 at September 30, 2011.

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

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 Wells Fargo Bank (formerly 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).

The LO Series 2005-A and 2005-B Warrants have an outstanding balance of $279,675 at September 30, 2011.

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. 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 LO Series 2005-B Variable Rate Demand Warrants.

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 discussion below).

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any excess monies accumulated in the Redemption Fund. No redemptions were made during fiscal 2011.

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. 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, as further discussed below.

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 below). The outstanding principal balance of the LR Series 2006 Warrants was $82,500 at September 30, 2011. Also, see Note V for subsequent events related to the lease.

NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2011. Activity related to the long-term debt is as follows:

Issue	Balance at September 30, 2010	Additions	Payments	Balance at September 30, 2011	Due within One Year
Business-Type Activities:					
Series 1997-A Warrants	$ 57,030	$ -	$ -	$ 57,030	$ 57,030
Series 2001-A Warrants	11,960	-	950	11,010	11,010
Series 2002-A Warrants	101,465	-	-	101,465	101,465
Series 2002-C Warrants	806,738	-	-	806,738	806,738
Series 2003-A Warrants	18,730	-	3,450	15,280	15,280
Series 2003-B Warrants	1,120,875	-	20,045	1,100,830	1,100,830
Series 2003-C Warrants	1,045,525	-	1,900	1,043,625	1,043,625
	3,162,323	-	26,345	3,135,978	3,135,978
Governmental Activities:					
Series 2001-A GO Warrants	9,810	-	9,810	-	-
Series 2001-B GO Warrants	105,000	-	-	105,000	105,000
Series 2003-A GO Warrants	46,745	-	560	46,185	46,185
Series 2004-A GO Warrants	51,020	-	1,685	49,335	49,335
Series 2004-A LO Warrants	559,830	-	25,430	534,400	534,400
Series 2005-A&B LO Warrants	285,250	-	5,575	279,675	279,675
Series 2006 Lease Warrants	83,635	-	1,135	82,500	82,500
	1,141,290	-	44,195	1,097,095	1,097,095
	$ 4,303,613	$ -	$ 70,540	$ 4,233,073	$ 4,233,073

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, 2011.

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) had 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.

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).

The repurchase of warrants by the Liquidity Providers resulted in the acceleration of certain warrant payments (under optional and mandatory tender of warrants), as these warrants (with the exception of the LO Series 2005-B Warrants) basically were 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. However, such Forbearance Agreements (and any related extensions) 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 default 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.

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 became Events of Default under Section 13.1(c) when 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.

NOTE J - WARRANTS PAYABLE - Continued

As discussed in the September 22, 2008, Material Event Notice, 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 but subsequently dismissed after the Commission filed bankruptcy in November 2011. See Notes S and V for Contingent Liabilities and Litigation and Subsequent Events, respectively, for further discussion.

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 became Events of Default under Section 13.1(c) of the Indenture when 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 became Events of Default, as defined in Section 13.1(c) of the Indenture, when 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.

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 and Auction Rate Warrants, as described in prior Notices.

NOTE J - WARRANTS PAYABLE - Continued

The Trustee was 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.

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 such covenant defaults became Events of Default when 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 are Events of Default under Section 13.1(c) of the Indenture when not cured within 30 days of the dates of those notices.

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

NOTE J - WARRANTS PAYABLE - Continued

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

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.

***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).

In addition, as a result of the notices of events of default, the interest rates on certain warrants 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 below for a discussion of the impact on interest rates and payments.

NOTE J - WARRANTS PAYABLE - Continued

Events of Default under Standby Warrant Purchase Agreements

The holders of the Variable Rate Demand Sewer Revenue Warrants had 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 12 or 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 purchase 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 in the Material Event Notices 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 below for further discussion.

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 were 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 (2008) (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.

In addition, the Commission entered into forbearance agreements with the Liquidity Providers (Liquidity Agreement Forbearance Agreements - discussed below) and repaid a portion of the outstanding obligation for the tendered warrants. However, all Forbearance Agreements subsequently expired. The Commission defaulted on its obligation to redeem the Variable Rate Demand Sewer Revenue Warrants (Series 2002-A, Series 2002-C and Series 2003-B Warrants) on the accelerated 12 or 16 installment timeframe. As a result, Syncora purchased Variable Rate Demand Sewer Revenue Warrants (Series 2002-C Warrants and Series 2003-B Warrants) from the Liquidity Providers in an aggregate principal amount of $109,196 pursuant to claims on bond insurance policies provided by Syncora for those Warrants.

NOTE J - WARRANTS PAYABLE - Continued

Syncora and the Liquidity Providers subsequently entered into a Settlement Agreement dated as of April 7, 2010, whereby Syncora was relieved of further payments under its bond insurance policies for the Variable Rate Demand Sewer Revenue Warrants (Series 2002-C Warrants and Series 2003-B Warrants) in exchange for multiple lump-sum payments to the Liquidity Providers. The outstanding balance for the Variable Rate Demand Sewer Revenue Warrants (Series 2002-C and Series 2003-B Warrants) is payable to the Liquidity Providers and Syncora as of September 30, 2011.

Termination of Standby Warrant Purchase Agreement - Series 2002-A

The holders of the Series 2002-A Warrants had 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 were insured by FGIC.

On September 11, 2008, the Liquidity Provider delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility. The notice cited the occurrence and continuation of an Event of Default specified in Section 8.01(o) of the Liquidity Facility, relating to the downgrade of FGIC, as the grounds for the termination of the Liquidity Facility. Pursuant to the Termination Notice and Section 8.02(b) of the Liquidity Facility, the Liquidity Facility terminated 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 and related Event of Default, the Commission was required to redeem all Series 2002-A Warrants held by the Liquidity Provider in four equal quarterly installments, beginning October 1, 2008. During 2009, FGIC repaid the Liquidity Provider on behalf of the Commission, and the entire outstanding balance for Series 2002-A Warrants is currently payable to FGIC.

NOTE J - WARRANTS PAYABLE - Continued

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 default 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.

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.

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

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.

NOTE J - WARRANTS PAYABLE - Continued

Governmental Activities

Notice of Event of Default - General Obligation Warrants, Series 2001-B
The holders of the GO Series 2001-B Warrants had 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 GO Series 2001-B Warrants that are subject to an optional or mandatory tender, the Commission entered into Standby Warrant Purchase Agreements (the GO Series 2001-B Liquidity Facility) with two banks, each of which are a GO Liquidity Provider. The GO Series 2001-B Warrant holders began tendering the Warrants for purchase in March 2008. Subsequent to that date, all of the $120,000 principal amount of the GO Series 2001-B Warrants were tendered to the GO Liquidity Providers, none of which was subsequently remarketed.

The GO Series 2001-B Warrants 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.

Pursuant to the agreements with the GO Liquidity Providers under the Standby Warrant Purchase Agreements, the Commission was required to redeem the tendered GO Series 2001-B Warrants in six equal semiannual installments beginning six months from the date of tender (2008) since such Warrants were not remarketed prior to the redemption dates.

The Commission received a Notice of Event of Default on the Standby Warrant Purchase Agreement related to the GO Series 2001-B Warrants 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.

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 (subsequently extended to September 14, 2009). The forbearance agreements, among other items, state that the GO Liquidity Providers will not exercise their rights under the agreement. On March 13, 2008, pursuant to the agreement, the Liquidity Providers repurchased Warrants in the aggregate principal amount of $118,740.

NOTE J - WARRANTS PAYABLE - Continued

Of the $105,000 balance outstanding at September 30, 2011, $103,740 is currently due and payable, 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.

Covenant Violations and Notices of Default - Limited Obligation School Warrants

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.

NOTE J - WARRANTS PAYABLE - Continued

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. As of September 24, 2012, the Commission had met its obligations under Section 14.8 of the Indenture and had satisfied the Reserve Fund Requirement.

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.

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.

Notice of Event of Default - Lease Revenue Warrants, Series 2006
Under the Trust Indenture dated August 1, 2006, between the Jefferson County Public Building Authority (Authority) and First Commercial Bank, as trustee (Trustee), the Warrants are payable solely from lease payments by the Commission to the Authority pursuant to a Lease Agreement dated August 1, 2006. Under the Lease Agreement, the Commission is required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants.

Principal in the amount of $4,130,000 and interest in the amount of $2,081,297 were due with respect to the Warrants on April 2, 2012.

NOTE J - WARRANTS PAYABLE - Continued

The Commission failed to make the required lease payment when due on March 28, 2012. The Trustee delivered a Notice of Default to the Commission by letter dated March 30, 2012. The Notice of Default states that an "Event of Default," as defined in the Lease Agreement, has occurred under the Lease Agreement as a result of the Commission's failure to make the lease payment on March 28, 2012.

Failure to pay the principal and interest on the Warrants in the amount of $6,211,297 when due on April 2, 2012, resulted in an "Indenture Default," as defined in the Indenture. The Trustee drew upon available monies on deposit in the Reserve Fund established under the Indenture to pay the debt service due on April 2, 2012, in full. The occurrence of an Event of Default under the Lease Agreement also created an additional Indenture Default. See Note V for subsequent events.

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
2012	$ 48,610	$ 71,106	$ 60,545	$ 47,605	$ 109,155	$ 118,711	$ 227,866
2013	35,035	70,213	57,540	45,084	92,575	115,297	207,872
2014	36,750	69,272	60,230	42,422	96,980	111,694	208,674
2015	38,515	68,285	63,045	39,628	101,560	107,913	209,473
2016	40,345	67,211	65,980	36,698	106,325	103,909	210,234
2017-2021	235,875	323,196	364,730	134,815	600,605	458,011	1,058,616
2022-2026	398,795	280,154	424,175	46,516	822,970	326,670	1,149,640
2027-2031	478,115	225,395	850	-	478,965	225,395	704,360
2032-2036	558,775	174,141	-	-	558,775	174,141	732,916
2037-2041	1,039,163	77,917	-	-	1,039,163	77,917	1,117,080
2042	226,000	3,171	-	-	226,000	3,171	229,171
	$3,135,978	$1,430,061	$1,097,095	$ 392,768	$4,233,073	$1,822,829	$6,055,902

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.

NOTE J - WARRANTS PAYABLE - Continued

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

Accelerated Repayment Schedule

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2012	$ 827,074	$ 154,590	$ 981,664
2013	31,457	47,390	78,847
2014	33,046	49,610	82,656
2015	34,635	51,930	86,565
2016	36,339	54,350	90,689
2017-2021	190,947	314,200	505,147
2022-2026	270,802	424,175	694,977
2027-2031	400,268	850	401,118
2032-2036	373,217	-	373,217
2037-2041	812,658	-	812,658
2042	125,535	-	125,535
	$ 3,135,978	$ 1,097,095	$ 4,233,073

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.

NOTE J - WARRANTS PAYABLE - Continued

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
2012	$ 3,135,978	$ 1,097,095	$ 4,233,073
Thereafter	-	-	-
	$ 3,135,978	$ 1,097,095	$ 4,233,073

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

While the Events of Default changed the status of certain warrants to "demand bonds" (which are deemed callable under *GASB Interpretation No. 1*), the Trustee has not accelerated the payments due on the fixed rate or auction rate warrants. The Variable Rate Demand Warrants were called for redemption during 2008 and were payable over an accelerated period (three or four years) commencing on or around the date of tender (2008) which results in the majority of those Warrants being currently due and payable.

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, 2011, warrants of $1,027,330 ($1,015,000 of Business-Type Activities and $12,330 of Governmental Activities) are outstanding, and the related fair market value of the escrow account balances for these defeased warrants held in trust totals $1,079,567 ($1,065,861 Business-Type Activities and $13,706 Governmental Activities) at September 30, 2011.

NOTE J - WARRANTS PAYABLE - Continued

Warrant Issuance Costs, Premiums and Discounts, and Deferred Loss on Refundings

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)		
	Issuance Costs	Premiums (Discounts) Net	Deferred Loss on Refundings
Business-Type Activities:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 72,853	$ 6,570	$ 360,618
Accreted (amortized), net in prior years	(21,915)	(83)	(80,800)
	50,938	6,487	279,818
Current year (amortization) accretion, net	(4,347)	(182)	(10,748)
Net balance at September 30, 2011	$ 46,591	$ 6,305	$ 269,070
Governmental Activities:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 19,128	$ 51,347	$ 1,793
Accreted (amortized), net in prior years	(6,333)	(16,576)	(1,793)
	12,795	34,771	-
Current year (amortization) accretion, net	(825)	(2,337)	-
Net balance at September 30, 2011	$ 11,970	$ 32,434	$ -
Commission total:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 91,981	$ 57,917	$ 362,411
Accreted (amortized), net in prior years	(28,248)	(16,659)	(82,593)
	63,733	41,258	279,818
Current year (amortization) accretion, net	(5,172)	(2,519)	(10,748)
Net balance at September 30, 2011	$ 58,561	$ 38,739	$ 269,070

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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

The Commission has periodic arbitrage rebate calculations performed on tax-exempt bonds and accrues arbitrage rebates based on those calculations. The Commission obtained the arbitrage rebate calculations for the tax-exempt warrants and has recorded accrued arbitrage rebates of $3,103 ($63 for Business-Type Activities and $3,040 for Governmental Activities) as of September 30, 2011.

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, 2011.

NOTE J - WARRANTS PAYABLE - Continued

The Trustee can and has authorized disbursements from certain reserve funds held for the Business-Type Activities Warrants for payment of principal and interest due during fiscal 2008 (none in fiscal 2011). The Trustee notified the Commission of the failure to maintain or replenish the reserve funds at the levels required under the warrant agreements which resulted in default for these warrant agreements.

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 $202,941 at September 30, 2011. 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 $164,514 at September 30, 2011. 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.

NOTE J - WARRANTS PAYABLE - Continued

The Annual Financial Information is required to be filed with the Municipal Securities Rulemaking Board (MSRB), as the central repository for ongoing disclosures by municipal issuers, as designated by the Securities and Exchange Commission and any Alabama state information depository. The disclosures are available to investors by the MSRB's Electronic Municipal Market Access (EMMA).

Material events notices are required to be filed with the MSRB and any Alabama state information depository. Such material events may 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, any changes in the ratings of the warrants or bankruptcy, insolvency, receivership or similar event of the Commission.

The Commission has issued numerous material events notices for events that occurred during fiscal 2008 through 2011 (described below) and subsequent to September 30, 2011, including notices of events of default for certain agreements (Note V).

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

	Fiscal Year Ended September 30,			
	2011	**2010**	**2009**	**2008**
Active accounts	139,706	140,092	141,590	143,576
Average daily treatments volume (millions of gallons treated)	98	125	113	92
Sewer charges (000s)	$173,312	$160,467	$166,931	$167,159
% Revenue - largest customer	1.61%	1.49%	1.21%	1.35%
% Revenue - top 10 customers	8.31%	6.40%	6.31%	5.32%

NOTE J - WARRANTS PAYABLE - Continued

2011 Top 10 Customers	Consumption (in Gallons)	Billed
U.S. Steel	540,191	$ 2,783,618
University of Alabama at Birmingham	510,275	3,702,035
Birmingham Housing Authority	258,289	1,911,339
AT&T, Inc.	137,608	1,018,299
Brookwood Medical Center	137,448	1,017,115
Trinity Medical Center	112,663	833,706
SMI Steel, Inc.	112,517	832,626
Samford University	108,415	802,271
Barber’s Pure Milk Company	118,621	772,460
Veterans’ Administration	97,529	721,715
	2,133,556	$ 14,395,184

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, 2010 or 2011. The proper application of the rate covenant is one of the issues in the litigation with the Trustee and bond insurers (see Notes S and V for a discussion of Contingent Liabilities and Litigation and Subsequent Events, respectively).

Municipal Bond Insurance Policy

Concurrent with the issuance of the warrants, National, Ambac, FGIC, Syncora or AGM issued municipal bond (warrant) insurance policies for all revenue warrant issues, except the Business-Type 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.

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, 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 through 2011 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, 2011, 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 disclosed in the September 22, 2008, Material Event Notice, 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.

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.

NOTE J - WARRANTS PAYABLE - Continued

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Material Event Notices

2008 - During fiscal 2008, Material Event Notices disclosed rating downgrades on long-term ratings assigned to warrants insured by FGIC and Syncora (which comprise substantially all of the Sewer Revenue Warrants) from Standard and Poors Rating Services (S&P), Fitch Ratings Ltd. (Fitch) and Moody's Investor Service, Inc. (Moody's). The rating downgrades were in conjunction with the reductions of the rating agency financial strength and financial enhancement ratings of the underlying insurer (FGIC and Syncora).

The downgrades also resulted in the occurrence of Additional Termination Events under the interest rate swap agreements (see Interest Rate Swap Agreements Termination Events and Swap Forbearance Agreements - Note K).

The downgrades of Syncora and FGIC caused the Syncora and FGIC surety bonds 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). Additionally, certain notices of default were received under the Standby Warrant Purchase Agreements. The Commission and all other parties to the Liquidity Facilities entered into forbearance agreements (see Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements - Note K).

Material Event Notices also disclosed ratings downgrades related to Series 1997A, Series 2001-A, Series 2003 B-1-A to B-1-E and Series 2003 C-1 to C-10 Warrants. On September 11, 2008, 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 (as discussed above).

2009 - During fiscal 2009, Material Event Notices disclosed extensions to the Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements dated March 31, 2008, with the Forbearance Agreements expiring either June 30, 2009 or July 31, 2009.

The warrants received further downgrades by S&P, Fitch and Moody's of the long-term ratings assigned to the warrants insured by Syncora, FGIC and AGM.

NOTE J - WARRANTS PAYABLE - Continued

Notices of Default were delivered by the Trustee to the Commission dated October 15, 2008, November 14, 2008, December 19, 2008, February 17, 2009 and March 24, 2009 (discussed in detail above).

In addition, Material Event Notices disclosed the termination notices received on the interest rate swap agreements and resulting swap termination payments due, as further discussed in Note K.

The July 6, 2009, Material Event Notice disclosed that for debt service payments due on July 1, 2009, the Trustee applied net sewer revenues from the Commission to the payment of all interest due on the Warrants on such date. Certain Warrants were purchased by a Liquidity Provider pursuant to a Liquidity Facility and are insured 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 were 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. The Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants, and Syncora suspended payment on its insurance policies. As a result, $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.

2010 - During fiscal 2010, Material Event Notices disclosed that debt service payments on certain warrants purchased by Liquidity Providers pursuant to Liquidity Facilities and subject to accelerated amortization provisions were called for redemption in part on October 1, 2009.

Additionally, a Notice of Default was delivered by the Trustee to the Commission dated February 3, 2010 (as discussed above). Material Event Notices also disclosed the withdrawal of long-term insured ratings assigned by Fitch to certain warrants insured by AGM.

NOTE J - WARRANTS PAYABLE - 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 (IRS) 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 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.

NOTE J - WARRANTS PAYABLE - 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, $46,046,000 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.

September 16, 2011 - The September 16, 2011, Material Event Notice disclosed that the Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). Implementation of the settlement and refinancing is contingent upon a number of factors, some of which are referred to in the Term Sheet. The proposed settlement and refinancing was not accomplished, and the Commission filed for Bankruptcy protection in November 2011 (discussed further in Note V - Subsequent Events).

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.

NOTE J - WARRANTS PAYABLE - Continued

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.

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 for the months of April through August (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).

NOTE J - WARRANTS PAYABLE - Continued

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. 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. A total of $35,089 was drawn from the surety bond policies in the Reserve Fund while the remainder, or $5,829, was cash. As of September 30, 2011, the Reserve Fund holds four surety bonds with a value of $176,082. The balance in funds restricted for debt service or capital improvements at September 30, 2011, was $29,363.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Event Notices

2008 - During fiscal 2008, Material Event Notices disclosed rating downgrades by S&P, Fitch and Moody's on the long-term ratings assigned to the Limited Obligation School Warrants, General Obligation Warrants and Lease Revenue Warrants insured by Ambac or National. A Notice of Default was disclosed with regards to GO Series 2001-B Warrants and the mandatory redemption on September 15, 2008. Material Event Notices also disclosed the Commission had entered into a Forbearance Agreement with regards to the Warrants that were due.

2009 - During fiscal 2009, Material Event Notices disclosed extensions to the Forbearance Agreements dated September 15, 2008 to September 2009, for the GO Series 2001-B Warrants. Certain Limited Obligation School Warrants, General Obligation Warrants and Lease Revenue Warrants received further downgrades by S&P, Fitch and Moody's of the long-term ratings assigned to the warrants.

A Notice of Default dated July 30, 2009, was disclosed with regards to the GO Series 2001-B Warrants (discussed in detail above).

NOTE J - WARRANTS PAYABLE - Continued

***2010* -** During fiscal 2010, Material Event Notices disclosed ratings downgrades by S&P on the long-term ratings assigned to certain Limited Obligations School Warrants, General Obligation Warrants and Lease Revenue Warrants.

A Notice of Default dated December 28, 2009, was disclosed related to the LO Series 2004-A, Series 2005-A and Series 2005-B Warrants. Additionally, a Material Event Notice disclosed a payment event of default related to the GO Series 2001-B Warrants after the Forbearance Agreement expired in January 2010, and the Warrants were not redeemed as required by 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 GO Series 2001-A Warrants, 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 Standard & Poor's Underlying Rating (SPUR) or the insurer rating.

The current long-term rating assigned by S&P to the Ambac insured Warrants remains "B" to match the SPUR for those Warrants.

***December 13, 2010* -** The December 13, 2010, Material Event Notice disclosed a ratings downgrade related to the LO Series 2005-A and Series 2005-B Warrants, 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 LR Series 2006 Warrants. 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.

NOTE J - WARRANTS PAYABLE - Continued

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 LO Series 2005-A and 2005-B Warrants and LR Series 2006 Warrants. 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.

April 27, 2011 **-** The April 27, 2011, Material Event Notice disclosed a ratings downgrade related to the LO Series 2005-A and 2005-B Warrants and LR Series 2006 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-".

September 16, 2011 - The September 16, 2011, Material Event Notice disclosed that the Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). Implementation of the settlement and refinancing is contingent upon a number of factors, some of which are referred to in the Term Sheet. The proposed settlement and refinancing was not accomplished, and the Commission filed for Bankruptcy protection in November 2011 (as further discussed in Note V - Subsequent Events).

NOTE J - WARRANTS PAYABLE - Continued

Proposed Terms and Conditions for Settlement and Refinancing

The September 16, 2011, Material Event Notice disclosed that the Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). Implementation of the settlement and refinancing was contingent upon a number of factors, some of which are referred to in the Term Sheet. The Term Sheet stated that the Commission and the participating holders of sewer warrants (the Creditors) would agree to settle and refinance the Commission's outstanding sewer debt based on a number of items and conditions, including settlement in the approximate amount of $2.05 billion to redeem all outstanding sewer warrants (contingent on an additional $0.03 billion in creditor concessions from Creditors to be identified in the future), 40-year term, 1.25X debt service coverage, 10 percent Debt Service Reserve (DSR) - half of which may be funded (at the Commission's option) by a surety bond provided by Assured Guaranty, priority pledge of net sewer revenues, moral obligation covenant by the State of Alabama to seek legislative appropriations to replenish draws, if any, on the DSR, up to $1.0 billion of bond insurance (at the Commission's option) provided by Assured Guaranty, closing no later than July 30, 2012, and projected capital needs covered by existing warrant reserves and future cash flow.

The Term Sheet included formation of a government utility service corporation (GUSC). The GUSC would have the authority to file Chapter 9 with consent of the Governor of the State of Alabama. The GUSC would covenant not to contest treatment of the pledged revenues as "special revenues" as defined in 11 U.S.C. Section 902(2). Once the refinancing bonds were paid or refinanced without credit support from the State of Alabama, the GUSC would be eligible to file Chapter 9 without the Governor's consent. The Receiver was to remain in operating control of the sewer system until closing of the refinancing pursuant to the Receiver order. It was anticipated that the Refinancing would require approximate rate increases of 8.2 percent for each of the first three years beginning November 1, 2011 (or as soon thereafter as possible, and future projected annual increases of no more than 3.25 percent for operating expenses and capital requirements until such time as the debt service requirements related to the refinancing are met). All interest rate swaps still outstanding would be terminated at no cost to the Commission.

NOTE J - WARRANTS PAYABLE - Continued

Regarding the Series 2001-B General Obligation Warrants, JPMorgan would (a) waive approximately $9 million in claims arising from termination of a *pari passu* swap and accrued and unpaid default interest on such General Obligation Warrants and (b) reinstate the original amortization schedule applicable to the General Obligation Warrants.

The Term Sheet was applicable to the Business-Type Activities for the Sewer Revenue Refunding Warrants, Series 1997-A, Sewer Revenue Capital Improvement Warrants, Series 2001-A, Sewer Revenue Capital Improvement, Series 2002-A, Sewer Revenue Refunding Warrants, Series 2002-C, Sewer Revenue Refunding Warrants, Series 2003-B, Sewer Revenue Refunding Warrants, Series 2003-C, for the Governmental Activities for the General Obligation Warrants, Series 2001-B, General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, General Obligation Warrants, Series 2004-A, Limited Obligation School Warrants, Series 2004-A, Limited Obligation School Warrants, Series 2005-A and 2005-B, Lease Revenue Warrants, Series 2006 and for the Alabama Water Pollution Control Authority Revolving Fund Loan Refunding Bonds, Series 2003-B.

While the Commission and Creditors worked towards executing a definitive agreement of the Term Sheet, the proposed settlement and refinancing was not accomplished, and the Commission filed protection under Chapter 9 Bankruptcy in November 2011 (as discussed further in Note V).

Warrant Payments Subsequent to September 30, 2011 (amounts in thousands)

Governmental Activities
Subsequent to September 30, 2011, and through February 4, 2013, the Commission did not make scheduled principal payments of $12,575 and interest payments of approximately $11,600 related to the GO Series 2001-B, 2003-A and 2004-A Warrants.

Business Type Activities
Subsequent to September 30, 2011, and through February 4, 2013, the Commission did not make scheduled principal payments of $29,685 related to the Series 2001-A, 2003-A, 2003-B and 2003-C Sewer Warrants and interest payments of approximately $9,146 related to the Series 1997-A, 2001-A, 2002-A, 2002-C, 2003-A, 2003-B and 2003-C Sewer Warrants.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS

The Commission's asset/liability strategy was 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.

In connection with the issuance of the Sewer Revenue Warrants, the Commission entered into various 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 were terminated prior to September 30, 2011.

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.

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, 2011.

All of the interest rate swap agreements were terminated prior to September 30, 2009; therefore, the fair value of the interest rate swap agreements as of September 30, 2011, was estimated using the Market Quotation Method (termination payment notice fee plus accrued interest).

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The interest rate swap agreements used 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 S&P, or lower than "Baa2" by 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 under the related agreement.

Each of the interest rate swap agreements was terminated by the counterparty to the agreement prior to fiscal 2011. The following discussion summarizes the transactions and events as of September 30, 2011.

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.

Material Event Notices
The Commission had certain events during fiscal 2010, 2009 and 2008 that required additional disclosures and were included in Material Event Notices filed by the Commission, including rating downgrades, forbearance agreements (all expired in 2009) and termination notices received for the interest rate swap agreements (as discussed below).

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, 2011 (all of which have been terminated prior to September 30, 2011) (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)
Business-Type Activities						
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	(133)	(25,968)
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	(1,470)	(13,336)
Lehman Brothers	190,054	12/15/2008	(68,568)	NA	(7,504)	(76,072)
Bear Stearns	824,700	3/3/2009	10,524	NA	96	10,620
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	97	6,347
Bank of America	379,847	7/15/2008	(2,560)	NA	(39)	(2,599)
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	(1,914)	(18,677)
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	(10,867)	(119,685)
Governmental Activities						
Series 2001-B Warrants:						
JPMorgan Chase Bank	120,000	9/4/2008	(7,894)	-	(1,033)	(8,927)
	$5,479,950		$ (764,516)	$ 647,804	$ (11,900)	$ (128,612)

Termination Events

Certain events occurred during fiscal 2009 in connection with the interest rate swap agreements that triggered an additional termination event for the various 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, and all interest rate swap agreements were terminated prior to September 30, 2009.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

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 in 2009, 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 10 interest rate swap agreements that were terminated during fiscal 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.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

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 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.

Due to the downgrades of the Commission’s underlying ratings on the Sewer Revenue Warrants (as discussed above), along with the failure to post collateral or provide insurance, an Additional Termination Event for each of the Sewer Revenue Warrant Interest Rate Swap Agreements occurred on March 7, 2008.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

With the occurrence of the Additional Termination Events, each counterparty 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 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, and paid the Commission $75,000 as part of a legal settlement with the Securities and Exchange Commission (SEC) and the Commission.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

The settlement agreement stated that the 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.

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, 2011, resulted in termination fees and accrued interest of $119,685 that were recorded as of September 30, 2011, and are included in these financial statements.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants, Series 2001-B
The Commission entered into an interest rate swap agreement in connection with its $120,000 variable rate revenue warrants in April 2001 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 long-term general obligation indebtedness 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.

Furthermore, a downgrade of the Commission's long-term general obligation indebtedness below "BBB-" by S&P or below "Baa3" by Moody's constituted an Additional Termination Event unless the Commission within 10 days of the downgrade 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 under such Swap Agreement.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Due to the downgrades of the Commission's underlying ratings on the long-term general obligation indebtedness (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 Agreement occurred during August 2008.

With the occurrence of the Additional Termination Event, the counterparty had the right, exercisable at its discretion, to terminate its swap transaction upon notice to the Commission. When the counterparty exercised its right to terminate, the Commission was obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreement. The termination of the interest rate swap agreement resulted in an additional termination payment that would be due to the counterparty.

Interest Rate Swap Agreements Termination Events

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, 2011, 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 $8,927 for the JPMorgan Chase Bank interest rate swap agreement as of September 30, 2011, including $1,033 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.

NOTE L - CONDUIT DEBT OBLIGATIONS - Continued

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, 2011, the principal amount outstanding was $26,255,000.

NOTE M - DEFINED BENEFIT PENSION PLAN

Plan Description

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

The Plan’s financial statements are publicly available in the annual report of the General Retirement System for Employees of Jefferson County, Alabama for the year ended September 30, 2011. 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, 2011, the Commission’s annual pension contribution of $9,015,000 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, 2011, 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 4.25 to 7.25 percent. Both (a) and (b) include an inflation component of 3.25 percent.

NOTE M - DEFINED BENEFIT PENSION PLAN - Continued

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, 2011, was 14 years.

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

Fiscal Year Ending	Annual Pension Cost (APC) (in Thousands)	Percentage of APC Contributed	Net Pension Obligation
09/30/2011	$ 8,923	100%	$ -
09/30/2010	9,297	100%	-
09/30/2009	9,657	100%	-

Funding Progress

For the year ended September 30, 2011, 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]
09/30/11	$ 949,368	$ 899,516	$ (49,852)	105.54%	$ 138,971	(35.87%)

The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of pension assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS)

In addition to the pension benefits described in Note M, the Commission sponsors a single-employer postretirement welfare benefit plan (OPEB Plan) in accordance with a resolution first approved by the Commission on September 25, 1990, and approved annually thereafter. The OPEB Plan provides for medical insurance coverage to eligible retirees and their dependents as indicated below:

Benefits are generally available at the earliest of the following:

1. Age 60 and completion of 10 years of paid membership service,
2. 30 years of paid membership service or
3. Age 55 with 30 years of service of which 20 must be paid membership service.

Eligibility: Subject to the operative terms and provisions of the OPEB plan, an individual is eligible who: (a) has not reached age 65, (b) is vested and thus entitled to receive, either currently or in the future, a retirement benefit and (c) is covered by the Jefferson County active employee group health insurance plan for hospital, physician, major medical and prescription drug benefits immediately before the date the retirement benefit becomes payable or, for an employee who is involuntarily retired, is covered by the Jefferson County active employee group health insurance plan as of the employee's date of separation from employment. Regardless of any operative terms or provisions of the OPEB Plan, (a) an individual who is eligible for Medicare enrollment on the date he or she is eligible to receive a retirement benefit shall be ineligible for OPEB Plan enrollment as an eligible retiree (but such individual shall be treated as an eligible employee solely for the purposes of OPEB Plan enrollment of eligible dependents) and (b) an eligible retiree's OPEB Plan coverage shall terminate if he or she becomes eligible for Medicare enrollment.

Eligible Dependent Coverage: Subject to the operative terms and provisions of the OPEB plan, an eligible retiree who is himself or herself eligible for OPEB plan coverage may enroll each eligible dependent of his or hers. However, an eligible dependent will be ineligible for OPEB plan enrollment if he or she has reached age 65 or is eligible for Medicare enrollment on the date he or she otherwise would be eligible for OPEB plan enrollment as an eligible dependent.

Benefit Types: Medical and prescription drug benefits are provided to all eligible retirees. Dependents of eligible retirees are granted the same benefits as the retiree.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

In June 2004, the GASB issued Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits (OPEB) other than Pensions.* GASB Statement No. 45 establishes standards for the measurement, recognition and disclosure of OPEB expenses and related liabilities and is effective for the County for the year ended September 30, 2008. Under this statement, all state and local governmental entities that provide other postemployment benefits are required to report the cost of these benefits on their financial statements. The Commission first adopted the requirements of GASB Statement No. 45 in 2011 and implemented it prospectively.

The statement covers postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees: long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan: and long-term disability insurance for employees. These benefits, referred to as OPEB, are typically financed on a pay-as-you-go basis. The statement requires accrual-basis accounting, thereby recognizing the employer cost of postemployment benefits over an employee’s career.

The total cost of providing postemployment benefits is projected, taking into account assumptions about demographics, turnover, mortality, disability, retirement, health care trends and other actuarial assumptions. This amount is then discounted to determine the actuarial present value of the total projected benefits (APB). The actuarial accrued liability (AAL) is the portion of the present value of the total projected benefits allocated to years of employment prior to the measurement date. The unfunded actuarial accrued liability (UAAL) is the difference between the AAL and actuarial value of assets in the Plan.

As of September 30, 2011, the most recent actuarial valuation date, the OPEB had 542 retired participants. The OPEB Plan had a total of 3,089 and 37 active participants and vested terminated participants, respectively. 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 $392 to $1,080 per month, and total insurance premiums range from $450 to $1,280.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Once the UAAL is determined, the annual required contribution (ARC) is determined as the normal cost (the APB allocated to the current year of service) and the amortization of the UAAL. This ARC is compared to actual contributions made, and any difference is reported as the net OPEB obligation (NOO). In addition, required supplementary information (RSI) must be reported, including historical information about the UAAL and the progress in funding the OPEB Plan.

The OPEB Plan does not issue a stand-alone financial report.

Funding Policy - The Commission has not set aside assets in a qualifying trust fund as of September 30, 2011, and is currently financing the OPEB Plan on a pay-as-you-go basis. Retirees and employees are not required to contribute to the OPEB Plan.

The Commission's OPEB cost is calculated based on the ARC calculated using the projected unit credit method, an allowable cost method under GASB Statement No. 45. The ARC is the basic annual expense recognized under GASB Statement No. 45 that is projected to cover normal cost each year and to amortize any unfunded actuarial liabilities over a period not to exceed 30 years, which is the amortization period used by the OPEB Plan.

The following table shows the components of the Commission's OPEB cost for the year, the amount contributed to the OPEB Plan and the changes in the Commission's net OPEB obligation:

(In Thousands)

Actuarial Valuation Date	Fiscal Year End	Annual Required Contribution (a)	Interest on Existing NOO (b)	Adjustment to ARC (c)	Annual OPEB Cost (a+b+c = d)	Annual Contribution Amount (e)	Percentage of OPEB Cost Contributed (e/d)	Net Increase (Decrease) in NOO (d-e = f)	NOO at Beginning of Year (g)	NOO at End of Year (f+g)
09/30/10	09/30/11	$ 7,436	$ 102	$ (94)	$ 7,444	$ 4,640	62.3%	$ 2,804	$ 2,554	$ 5,358
09/30/10	09/30/10	7,436	26	(24)	7,438	5,523	74.3%	1,915	639	2,554
09/30/08	09/30/09	5,038	(1)	1	5,038	4,371	86.8%	667	(28)	639
09/30/08	09/30/08	5,038	-	-	5,038	5,066	100.6%	(28)	-	(28)

Funding Status and Funding Progress

As of September 30, 2011, the most recent actuarial valuation date, the OPEB was zero percent funded. The actuarial accrued liability was $80,163,000, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $80,163,000. Covered payroll was approximately $138,971,000, resulting in unfunded actuarial liability as a percentage of payroll of 58 percent.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality and the health care cost trend. Amounts determined regarding the funded status of the OPEB and the annual required contributions of the employer are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information following the notes to the financial statements, presents multiyear trend information about whether the actuarial value of OPEB assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

The accompanying schedules of employer contributions present trend information about the amounts contributed to the OPEB by employers in comparison to the ARC, an amount that is actuarially determined in accordance with the parameters of GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost for each year and amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed 30 years.

Actuarial Methods and Assumptions

The information presented above was determined as part of the actuarial valuation at the date indicated. Projections of benefits for financial reporting purposes are based on the substantive plan (the OPEB as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Additional information as of the latest actuarial valuation follows:

Valuation Date	September 30, 2011
Actuarial Cost Method	Projected Unit Credit Method
Amortization Method	Level Percent of Pay, Open
Remaining Amortization Period	30 years
Asset Valuation Method	Market Value of Assets
Mortality	RP-2000 Employee Mortality Table
Discount Rate	4%
Projected Payroll Increases	3.25%
Inflation Rate	3.25%
Health Care Costs Rates	Pre-Medicare Medical Trend 10.5% graded to 5% over 7 years

NOTE O - 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.

- *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 $500 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.

NOTE O - RISK MANAGEMENT - Continued

- *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. The Commission has also purchased professional and general liability insurance with coverage consisting 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 with an unlimited benefit for each covered person, subject to a $250,000 deductible per covered person. 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 75 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.

For the year ended September 30, 2011, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

Balance October 1, 2010	Claims Incurred	Claims Paid	Increase/ Decrease in Provision	Balance September 30, 2011
$ 3,831,000	$ 26,874,000	$ (27,496,000)	$ 117,000	$ 3,326,000

NOTE O - RISK MANAGEMENT - Continued

For the year ended September 30, 2011, 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	
	2011	2010	2011	2010	2011	2010	2011	2010
Unpaid claims and claim adjustment expenses:								
Accrual at beginning of fiscal year	$ 1,335	$ 1,353	$ 269	$ 227	$ 4,230	$ 4,380	$ 5,834	$ 5,960
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	915	163	127	8	962	706	2,004	877
Increases/decreases in provision for insured events of prior fiscal years	(150)	37	(88)	43	(18)	338	(256)	418
Total incurred claims and claim adjustment expenses	765	200	39	51	944	1,044	1,748	1,295
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(171)	(218)	(8)	(9)	(1,134)	(995)	(1,313)	(1,222)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	-	-	-	-	-	(199)	-	(199)
Total payments	(171)	(218)	(8)	(9)	(1,134)	(1,194)	(1,313)	(1,421)
Accrual at end of fiscal year	$ 1,929	$ 1,335	$ 300	$ 269	$ 4,040	$ 4,230	$ 6,269	$ 5,834

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, 2011, the Development Authority was indebted to the Commission in the amount of $15,317,000, 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.

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

Warrants Payable

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2011:

	(In Thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
Warrant issue - 2004 series	$ 3,240	$ -	$ 1,390	$ 1,850
Less amount due in one year				1,435
				$ 415

Warrants payable are comprised of the following at September 30, 2011 (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 $2 and deferred loss on refunding of $12, of which $1 and $9 are current, respectively)	$ 1,836
Less amount due in one year, net	1,425
Warrants payable - noncurrent, net	$ 411

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

	Principal	Interest	Total
2012	$ 1,435	$ 38	$ 1,473
2013	415	7	422
	$ 1,850	$ 45	$ 1,895

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

As of September 30, 2011, the amount recorded for deferred charges - issuance costs was $4,000 ($3,000 classified as current assets).

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 was removed. The outstanding balance of defeased debt as of September 31, 2011, was $2,835,000.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS

Advances to/from Other Funds

The amounts of advances to/from other funds at September 30, 2011, were as follows:

	Advances from Other Funds (in Thousands)			
	Sanitary Operations Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Totals
Advances to other funds:				
General Fund	$ 10,628	$ 3,917	$ 15,317	$ 29,862
Nonmajor Governmental Funds	-	-	16,800	16,800
	$ 10,628	$ 3,917	$ 32,117	$ 46,662

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, (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 or (c) amounts payable from one fund to another for indirect cost allocations and are expected to be received within one year.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS - Continued

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2011, were as follows:

	Transfers in (in Thousands)					
	General Fund	Cooper Green Hospital Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Totals
Transfers out:						
General Fund	$ -	$ 10,616	$ -	$ 5,403	$ 2,716	$ 18,735
Indigent Care Fund	-	42,952	-	-	-	42,952
Bridge and Public Building Fund	-	-	-	43,399	-	43,399
Cooper Green Hospital Fund	44	-	-	-	-	44
Nonmajor Governmental Funds	6	-	2,102	12,381	-	14,489
	$ 50	$ 53,568	$ 2,102	$ 61,183	$ 2,716	$ 119,619

The Commission typically uses transfers to fund ongoing operating subsidies, to service a portion of current-year debt requirements and to provide for hospital operations. The Commission transferred capital assets from the Sanitary Operations Fund to the Capital Improvements Fund of $56,000 during the year.

NOTE R - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At September 30, 2011, the Commission has commitments of the following:

Name of Commitment		(in Thousands) Amount
Valley Creek wastewater treatment plant	$	7,579
Village Creek wastewater treatment plant		3,758
Tax administration software		2,750
Bessemer courthouse renovations		1,936
Tornado-related waste disposal		1,703
Brooklane Road improvements		1,500
Cahaba River wastewater treatment plant		1,276
Hickory Ridge housing development		1,018
Jefferson County Council on Aging services		805
Trussville wastewater treatment plant		577
Sewer collection fees		565
Shades Creek sewer improvements		512
Linndale Road improvements		500
	$	24,479

From time to time, the Commission enters into agreements with developers and vendors to promote economic development within Jefferson County. As of September 30, 2011, the Commission accrued expenses related to these agreements of $3,445,000 into general fund accounts payable in the accompanying balance sheet. On January 27, 2012, the Commission filed a motion in United States Bankruptcy Court to reject five economic development contracts, which is pending approval as of the date of this report. As of September 30, 2011, the following schedule details estimated payments to be made in subsequent years assuming the developers and vendors meet specific criteria within the agreements and the motion in United States Bankruptcy Court to reject the contracts is not approved (in thousands):

2012	$	2,461
2013		2,175
2014		2,175
2015		2,175
2016		800
	$	9,786

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, license and privilege taxes were invalid and an injunction against the further collection of those taxes. The Alabama Supreme Court affirmed this ruling.

As a result, the Commission was ordered to refund those taxes 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 occupational, license and privilege taxes. 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 approximately $6,500,000 of the escrowed taxes (the Edwards Preliminary Settlement Amount). 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.

By order dated August 9, 2011, the trial court gave final approval to the settlement that had been reached between the named class representatives and the Commission. Based on the final settlement, some 900 taxpayers who opted out of the class received their pro rata share of approximately $30,000, which was deducted from the Edwards Preliminary Settlement Amount and received a release from potential retroactive taxation. All other taxpayers, who did not elect to opt out of the class, received a release from the Commission for any potential recollection of occupational, license or privilege taxes for the escrow period, and the taxpayers, in turn, forego the right to receive their pro rata share of the Edwards Preliminary Settlement Amount. Taxpayers who did opt out of the class received their pro rata share of the settlement fund, but the Commission has already paid $1,100,000 to cover the administrative costs of refund administration pursuant to the trial court's order. The final settlement provided an additional $70,000 paid from the Edwards Preliminary Settlement Amount to cover expenses. Based on the final approval, approximately $6,400,000 was returned to the Commission. Two members of the settlement subclass have filed an appeal of the trial court's final approval of the settlement. The Bankruptcy Court granted the County's motion to lift the automatic stays as to such appeal. On November 16, 2012, the Alabama Supreme Court affirmed the trial court's order approving the final settlement.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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, 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 not have to be refunded.

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 did not decide the question whether the Commission must refund the taxes collected prior to December 1, 2010. On August 8, 2012, the Bankruptcy Court granted the County's request that the appeal be allowed to proceed. On November 16, 2012, the Supreme Court of Alabama ruled that the County was not required to refund the taxes collected prior to December 1, 2010.

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 Bankruptcy Court subsequently denied all motions to dismiss. Several defendants 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. In December 2011, one of the counts in this lawsuit was removed to the United States District Court for the Northern District of Alabama, which referred that count to the Bankruptcy Court, where the removed count was assigned Adversary Proceeding Number 11-00433-TBB. The matter remains pending with one count in Bankruptcy Court and one count in state court. The count in state court is stayed by operation of the automatic stays in effect in the Commission's Bankruptcy Case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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 has been administratively closed and is, therefore, 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, 2011.

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., LLC as Receiver over the Commission's sewer system. A money judgment was also entered against the Commission in the amount of $515,942,500, but the recourse for that money judgment is limited to the net revenues of the sewer system. Notwithstanding the nonrecourse nature of the sewer warrants and of the money judgment referenced above, the plaintiff and various sewer warrant holders or warrant insurers have filed proofs of claim in the Bankruptcy Case that assert or may assert recourse claims against the Commission's general fund, including, without limitation, proofs of claim in unliquidated amounts filed by The Bank of New York Mellon as indenture trustee, FGIC, Syncora and AGM. The remaining claims in this lawsuit 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.

Several additional parties sought to intervene in this matter after the order appointing the Receiver was entered. The potential intervening parties included 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. The trial court granted the Attorney General's motion to intervene but denied the motions of the other potential interveners on July 25, 2011. Among the intervention requests that were denied was the request of the Wilson plaintiffs, who subsequently appealed the order denying their motion. That appeal was stayed by the commencement of the Bankruptcy Case.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

After the commencement of the Bankruptcy Case, the plaintiff in the receivership action described herein, along with other parties, filed motions requesting that the Bankruptcy Court find that the automatic stays did not apply to this state court action or that the automatic stays should be lifted to allow the litigation to proceed in state court. The Commission opposed such motions. On November 21-22, 2011, the Bankruptcy Court held evidentiary hearings regarding these motions. On January 6, 2012, the Bankruptcy Court issued its opinion, holding that with one exception, the automatic stays in the Bankruptcy Case did prevent the state court litigation from proceeding and finding that cause did not exist for granting relief from such automatic stays to allow such state court litigation to continue. The one exception noted in the Bankruptcy Court's opinion related to postpetition net system revenues derived from the Commission's sanitary sewer system and the claims of the Commission's sewer warrant holders to such funds. The plaintiff and several other parties to this action appealed the Bankruptcy Court's decision, and the Commission, in turn, filed a cross-appeal. The United States Court of Appeals for the Eleventh Circuit granted the parties' petitions for permission to take direct appeals, and all such appeals and cross-appeals have been consolidated under the Court of Appeals' Case Number 12-13654. The parties have completed their briefing before the Eleventh Circuit on all appeals and cross-appeals. Oral argument has tentatively been scheduled before the Eleventh Circuit for the week of June 3, 2013. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

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, 2011. The Commission seeks damages in excess of a billion dollars, and the JPMorgan defendants have counterclaimed for indemnification. The case is proceeding in discovery, and the state court has scheduled the case for trial in October 2013. The outcome of this case is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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-Commission defendants, collectively, JPMorgan). The claims are based, at least in part, on events that allegedly took place before September 30, 2011. 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, and the Commission disputes such claims. 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.

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 moved to dismiss JPMorgan's cross-claim, but that motion was denied at a hearing on August 16, 2011. This case is currently stayed as a result of the Commission's commencement of its Chapter 9 Bankruptcy Case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

Assured Guaranty Municipal (AGM) Corp v. JPMorgan, Supreme Court of the State of New York, County of New York, Case number 650642/10, was filed June 16, 2010. AGM brought claims against J.P. Morgan Securities, Inc. 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 AGM arising out of this suit.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Commission moved to dismiss JPMorgan's third-party complaint, but that motion was denied at a hearing on August 16, 2011. The third-party complaint asserted by JPMorgan against the Commission currently is stayed as a result of the Commission's commencement of the Bankruptcy Case. AGM has filed a motion for relief from the automatic stays in the Bankruptcy Case seeking permission to proceed with its claims against JPMorgan. The Commission has opposed such motion, which is under consideration by the Bankruptcy Court. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2011.

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, 2011.

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 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.

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."

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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.

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 for the Commission's sewer system gave 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, 2011.

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 sewer 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.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Following the filing of the Commission's Bankruptcy Case, the trustee for the Commission's sewer warrants filed a proof of claim in the Bankruptcy Case "in an amount not less than $85,562,828.31," which is predicated on the theory that the Commission was obligated to turn the SEC compensation funds over to the trustee and that the Commission's failure to do so breached purported duties owed by the Commission and created purported general obligations of the Commission payable from the Commission's general fund. Because the SEC orders make clear that all funds were paid to and for the benefit of the Commission, and in compensation of harm suffered by the Commission, the Commission has disputed such claims.

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, 2011.

Claim under Financial Guaranty Agreement with Syncora. Prior to the Commission's filing for Chapter 9 bankruptcy, 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 based, at least in part, on events that allegedly took place before September 30, 2011. 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.

After the commencement of the Bankruptcy Case, Syncora filed proofs of claim in the Bankruptcy Case in which it asserted, among other claims, the reimbursement claim made in its September 10, 2010, notice of claim. There is currently no active litigation on this matter. The likely outcome of this matter is unknown.

Claim of Assured Guaranty Municipal Corp. On December 10, 2010, AGM 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. After the commencement of the Bankruptcy Case, AGM filed a proof of claim in which it asserted, among other claims, its claim for reimbursements with respect to such debt service reserve insurance policy in the amount of $4,390,337, plus accrued interest thereon in the additional amount of $1,010,150.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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. Prior to the commencement of the Commission's Bankruptcy Case, the Commission was unable to replenish the reserve fund for the LO Series 2004-A, 2005-A and 2005-B 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. On September 24, 2012, after the commencement of the Bankruptcy Case, the Commission fully replenished such reserve fund. After the commencement of the Bankruptcy Case, US Bank filed one or more proofs of claim in the Bankruptcy Case in which it claimed, among other things, $819,650,000 in outstanding principal owing upon such LO Series Warrants, $10,203,964 in accrued and unpaid interest owing thereon and premium to the extent owing under the pertinent indenture. There is currently no active litigation on this matter.

Notice by Bayerische Landesbank and JPMorgan under Standby Warrant Purchase Agreements. The Commission received notice from Bayerische Landesbank on August 10, 2010, and JPMorgan Chase Bank, N.A. on October 25, 2010, that these entities were invoking their rights under their standby warrant purchase agreements relating to certain of the Commission's General Obligation Warrants.

These agreements do not change the principal amount of the pertinent 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 standby agreements. Wells Fargo Bank, the successor indenture trustee with respect to the GO Warrants in question, has filed a proof of claim in the Bankruptcy Case with respect to such warrants in the amount of $105,138,677. Both Bayerische Landesbank and JPMorgan Chase Bank, N.A. have also filed proofs of claims asserting claims with respect to the respective standby warrant purchase agreements. There is currently no active litigation on this matter.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Potential Obligations under Standby Warrant Purchase Agreements Relating to Sewer Warrants (also discussed in Note J). Sewer warrants were purchased by financial institutions under various standby warrant purchase agreements. The total principal amount of sewer warrants purchased under these 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. The indenture trustee with respect to the sewer warrants has filed a proof of claim in the Bankruptcy Case in which it asserts a claim for all amounts due on account of the Commission's outstanding sewer warrants, which claim encompasses those sewer warrants purchased under such standby warrant purchase agreements. In addition, some, if not all, of the parties that purchased sewer warrants pursuant to such standby warrant purchase agreements (or their assignees) have filed their own proofs of claim in the Bankruptcy Case with respect to the sewer warrants they hold. There is currently no active litigation on this matter.

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 of the Constitution of Alabama. The Commission continues to evaluate the allegations of this claim in connection with its Bankruptcy Case, and there is currently no active litigation with respect to it. The likely outcome of this matter is unknown.

Jefferson County, Alabama v. Unisys Corporation v. Manatron, Inc. United States District Court for the Northern District of Alabama, Southern Division, Case number 2:10-CV-00485-KOB: The Commission filed this suit on March 9, 2010, asserting claims for breach of contract and unjust enrichment against defendant, Unisys Corporation (Unisys), arising from a contract where Unisys contracted to provide an integrated tax system to the Commission. Unisys asserted a counterclaim against the Commission, asserting claims for breach of contract and in quantum meruit, alleging that the Commission wrongfully terminated its contract with Unisys regarding the integrated tax system project. The Commission and Unisys reached a mutually agreeable resolution of the matter resulting in execution of a settlement agreement and mutual release between the Commission and Unisys. After the filing of a Joint Stipulation of Dismissal by the Commission and Unisys, pursuant to an Order Dismissing Party entered on May 4, 2011, the Court dismissed all claims between the Commission and Unisys, with prejudice, with each party to bear its own costs and expenses.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Bank of New York Mellon, as Indenture Trustee, v. Jefferson County, Alabama. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00016: The Trustee for the Commission's sewer warrants commenced this action against the Commission in February 2012 in the Bankruptcy Court. The complaint seeks a declaratory judgment, among other things, that the Trustee is entitled to receive all "System Revenues" from the Commission's sanitary sewer system net only of those items defined as "Operating Expenses" in the pertinent trust indenture and that the Commission was barred from using such "System Revenues" for capital expenditures, payment of professional fees and expenses unrelated to the actual operation and administration of the sewer system, and depreciation and amortization. The Trustee's complaint was subsequently amended to add certain of the warrant holders and warrant insurers as plaintiffs. In addition, one of the warrant insurers, FGIC, filed a complaint in intervention against the Commission. The Bankruptcy Court severed three counts of the plaintiffs' complaint and the Commission's counterclaims into a separate adversary proceeding (see discussion below). The Bankruptcy Court then proceeded to consider the remaining counts of the plaintiffs' complaint based upon the parties' respective trial briefs, evidence and argument presented on April 11-12, 2012, and certain subsequent submissions.

On June 29, 2012, the Bankruptcy Court issued its memorandum opinion and summarized its ruling as follows:

> Operating Expenses as determined under the Indenture do not include (1) a reserve for depreciation, amortization, or future expenditures, or (2) an estimate for professional fees and expenses. At the end of each monthly period, as is determined under the Indenture, the monies remaining in the Revenue Account following payment of the Operating Expenses that were (1) incurred in the then current month or any prior month and (2) due and payable in the then current month or a prior month are to be remitted in the priority and manner as set forth in Article XI of the Indenture without withholding of any monies for depreciation, amortization, reserves, or estimated expenditures that are the subject of this litigation. Additionally, 11 U.S.C. § 928(b) is inapplicable to the pledge of revenues under the Indenture and the distributive scheme in Article XI of the Indenture.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

One issue not addressed by the Bankruptcy Court's memorandum opinion was the Commission's ability to recover actually incurred sewer-related professional fees and expenses from sewer system revenues as "Operating Expenses" under the sewer warrant indenture. In order to preserve and pursue its rights in this respect, the Commission filed a motion seeking reconsideration, clarification or amendment of the Bankruptcy Court's memorandum opinion on July 5, 2012. The Commission's motion was opposed by the Trustee and other plaintiffs in this adversary proceeding. In October 2012, the Bankruptcy Court entered its amended memorandum opinion and an agreed order resolving the Commission's motion for reconsideration, reserving certain issues and directing entry of partial final judgment in the adversary proceeding. The Commission filed a notice of appeal of the Bankruptcy Court's decision and has petitioned for certification of that appeal directly to the U.S. Circuit Court of Appeals for the Eleventh Circuit. The Commission's petition for direct appeal is pending before the Eleventh Circuit. Separately, the Bankruptcy Court has taken under advisement and has not ruled on issues concerning the Commission's ability to recover numerous categories of actually incurred professional fees and expenses from sewer system revenues. The likely outcome of this matter is unknown.

Bank of New York Mellon v. Jefferson County, Alabama. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00067-TBB (the "Severed Sewer Adversary Proceeding"): As referenced above, on April 25, 2012, the Bankruptcy Court entered an order severing three of the plaintiffs' counts, as well as certain counterclaims filed by the Commission, from adversary proceeding number 12-00016 and into a separate adversary proceeding. That severed adversary proceeding remains pending before the Bankruptcy Court as adversary proceeding number 12-00067. The severed claims and the Commission's counterclaims seek a determination about the parties' respective rights, title and interest in three funds commonly referred to as the Released Escrow Funds, the 2005 Construction Fund and the Supplemental Transactions Fund. In its counterclaims, the Commission asserts that it owns each of these three funds free and clear of any lien, pledge or other property interest. The plaintiffs and the Commission have filed respective motions for summary judgment and accompanying briefs. The Bankruptcy Court has not ruled on the summary judgment motions, which were presented at a hearing on January 24, 2013. The likely outcome of this matter is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Bennett et al. v. Jefferson County, Alabama, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00120: On behalf of a putative class of individual and corporate sewer ratepayers of the Commission, 15 named plaintiffs have sued the Commission (in a nominal capacity) and 14 other organizations. The plaintiffs subsequently dismissed six of the nine counts originally asserted in their complaint. In their remaining counts, the ratepayer-plaintiffs seek injunctive and declaratory relief in addition to damages based on the following theories: (1) declaratory judgment that swap agreements relating to certain of the Commission's sewer warrants violated the pre-issuance requirements of the sewer warrant indenture and are void from the date of issuance (against all defendants other than the Commission); (2) declaratory judgment that such sewer swap agreements violate the Alabama constitutionally mandated debt restrictions (against all defendants other than the Commission); and (3) declaratory judgment that any obligations relating to such sewer swap agreements are not secured by a statutory lien and trust created by Alabama Code Section 11-28-3 and that none of the net revenues and other funds comprising the trust estate under the sewer warrant indenture are secured by a lien on sewer system service fees collected in accordance with Amendment 73 of the Alabama Constitution (presumably against all defendants).

The Commission has moved to strike the class claims and has moved for a more definite statement of the complaint. The other defendants have moved to dismiss the claims against them. Briefing on those motions is not complete. Proofs of claim which appear to be based on similar theories have been filed in the Bankruptcy Case by members of the putative class, including the proofs of claim filed by Roderick Royal on behalf of the putative class in the amount of $1,630,000,000. The likely outcome of this matter is unknown.

City of Birmingham, et al., v. Jefferson County Commission, et al. Circuit Court of Jefferson County, Alabama, Case number CV-2012-902529; and *City of Birmingham, et al., v. Jefferson County Commission, et al.*; United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00133: In August 2012, the City of Birmingham and Mayor William A. Bell, Sr. (the Mayor) filed a complaint in state court against the Commission, seeking a declaratory judgment that the Commission should be barred from terminating inpatient and emergency room care at Cooper Green Mercy Hospital (Cooper Green).

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

In response, the Commission filed with the Bankruptcy Court an emergency motion requesting entry of an order compelling the City of Birmingham and the Mayor to comply with the automatic stays of Bankruptcy Code Sections 362(a) and 922(a). The Bankruptcy Court held a hearing on the Commission's motion on August 30, 2012. On September 11, 2012, the City and the Mayor filed a Notice of Dismissal of their state court lawsuit, without prejudice.

After dismissing their lawsuit in state court, the City and the Mayor then filed a motion with the Bankruptcy Court requesting relief from the automatic stays to file another complaint in state court challenging the Commission's decision to stop providing inpatient care and to close the emergency room at Cooper Green. The City and the Mayor also filed a complaint with the Bankruptcy Court, naming the Commission and three County Commissioners as defendants in the complaint, thereby commencing adversary proceeding number 12-00133. The factual allegations and requested relief in the second complaint were almost identical to those in the original complaint filed in state court. On October 15, 2012, the Commission filed a motion to dismiss with regard to the City's and the Mayor's complaint in the Bankruptcy Court. The Bankruptcy Court has not ruled on the Commission's motion to dismiss.

On October 17, 2012, the Bankruptcy Court held a hearing on the City's and the Mayor's motion for relief from stay to file a complaint in state court. The Bankruptcy Court denied the stay relief motion, holding that state law did not require that the Commission maintain inpatient or emergency services at Cooper Green. The Bankruptcy Court issued its memorandum opinion on December 19, 2012, regarding its denial of the stay relief motion. The time for filing a notice of appeal from the Bankruptcy Court's December 19, 2012, ruling has expired.

Moore Oil Co., Inc. v. Jennifer Champion, as Treasurer of the County. U.S. Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00060: In April 2012, Moore Oil Co., Inc. (Moore Oil) filed a complaint in the Bankruptcy Court against Jennifer Champion, as Treasurer of the Commission, in which it alleged that the Treasurer breached a constructive trust by failing to remit to Moore Oil excess bid proceeds from a tax sale and thereby caused damages to Moore Oil. The Commission moved to dismiss the Moore Oil Adversary Proceeding on the basis that the claims asserted therein were prepetition causes of action that should be handled through the bankruptcy claims administration procedures, not as a separate adversary proceeding. The Bankruptcy Court agreed and dismissed the adversary proceeding.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Moore Oil subsequently filed a proof of claim in the Bankruptcy Case in the amount of $178,916 in which it asserts the claims that it previously asserted in the adversary proceeding. The likely outcome of this matter is unknown.

Lehman Brothers Special Financing Inc. v. The Bank of New York Mellon, as indenture trustee, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00149: In October 2012, Lehman Brothers Special Financing Inc. filed an adversary proceeding in the Bankruptcy Court against the Trustee for the Commission's sewer warrants and the Commission seeking a declaration that certain claims asserted by Lehman Brothers on account of certain swap agreements relating to the sewer warrants to which it was a party were entitled to parity treatment with other nonrecourse sewer warrant obligations. Both the indenture trustee and the Commission have filed answers to this complaint. The likely outcome of this matter is unknown.

Ahmed Farah v. Jefferson County Commission, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 13-00002: In January 2013, Dr. Farah filed suit against the Commission and the Commission's chief executive officer claiming money damages in the amount of $276,000 for alleged breach of contract, unjust enrichment and declaratory judgment. The deadline for the Commission to respond to Dr. Farah's complaint is February 8, 2013. The likely outcome of this matter is unknown.

Claims Relating to County's Lease Agreement with the Public Building Authority. Pursuant to a Lease Agreement dated as of August 1, 2006 (the Lease Agreement), the Commission leased from the Jefferson Commission Public Building Authority (the PBA) a courthouse and jail facility in Bessemer, Alabama (the Facilities). The Lease Agreement was renewable for successive one-year terms continuing to and including September 30, 2026. Payments under the Lease Agreement are used to pay debt service on certain warrants issued by the PBA in the principal amount of $86,745,000 pursuant to a trust indenture dated as of August 1, 2006. In the Bankruptcy Case, the Commission filed a motion to reject the Lease Agreement pursuant to Section 365 of the Bankruptcy Code. Both the indenture trustee regarding the PBA's lease warrants and the insurer of such warrants opposed the Commission's rejection of the Lease Agreement.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The indenture trustee filed a proof of claim in the Bankruptcy Case alleging that the Commission was liable in an amount not less than $86,475,000 on account of the PBA's lease warrant indebtedness, and the insurer of the lease warrants filed a proof of claim asserting a claim for all reimbursements owed or to be owed it for amounts drawn on its insurance policy, plus interest. After substantial negotiations, the Commission reached a settlement agreement with the PBA, the indenture trustee and the lease warrant insurer, pursuant to which the parties agreed to the Commission's rejection and termination of the existing Lease Agreement, with the parties to enter into a new lease agreement for the courthouse and jail facility on modified terms (the New Lease). The settlement allows for the filing of a proof of claim in the Bankruptcy Case for the "Rejection Claim" arising out of the Commission's agreed upon rejection of the Lease Agreement. In accordance with the provisions of the Bankruptcy Code, such "Rejection Claim" should be treated in the Bankruptcy Case as if it arose prior to the commencement of the Bankruptcy Case. By order dated December 20, 2012, the Bankruptcy Court approved this settlement. The "Effective Date" of the settlement occurred on January 9, 2013, and the Commission's rights and obligations with respect to the Facilities are now governed by the New Lease.

United States v. Jefferson County, et al. United States District Court for the Northern District of Alabama, Southern Division, Case number 2:75-CV-00666-CLS: Various private plaintiffs and the United States filed suit against the Jefferson County Personnel Board and other defendants to remedy alleged wrongs in the hiring and promotion of African-American and female applicants and employees. After considerable negotiations, litigation and appeals, the Commission entered into a consent decree on December 29, 1982. This decree, along with other consent decrees executed by other parties, remained the subject of further litigation and negotiations, including, in 2002, the federal district court appointing a receiver for the Jefferson County Personnel Board.

At present, the active portion of the litigation began on October 3, 2007, when two groups of plaintiffs claimed that the Commission had failed to comply with the consent decree's requirements to ensure equal employment for blacks and women and to remedy the effects of prior discrimination. The plaintiffs also allege that the Commission has failed to comply with consent decree requirements regarding hiring specific compliance officers and recordkeeping. The plaintiffs sought to hold the Commission in contempt and sought to modify the consent decree to mandate particular practices that the plaintiffs would like to see implemented. On January 27, 2012, the federal district court found that the automatic stays did not apply to the portions of this lawsuit that concern the Commission.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Claims for Tax Remittances Made by Certain Municipalities. In the Bankruptcy Case, certain municipalities located within Jefferson County have filed proofs of claim, asserting claims against the Commission for the remittance of certain tax collections. Two of these municipalities' proofs of claim are significant: (a) the proof of claim filed by the City of Birmingham in the amount of $10,999,743 for the remittance of road taxes and business privilege taxes and (b) the proofs of claim filed by the City of Bessemer, in the amount of $2,962,250, for the remittance of certain taxes and other alleged damages. The likely outcome of this matter is unknown.

Pending Sewer-Rate-Related Stay Relief Litigation. A series of motions for relief from stay has been filed by FGIC (motion filed on March 28, 2012), the indenture trustee for the Commission's sewer warrants (motion filed on November 5, 2012) and a group of sewer warrant holders (the Ad Hoc Group) (motion filed on November 10, 2012) in the Bankruptcy Court seeking relief from the automatic stays to allow the indenture trustee to enforce contractual remedies relating to sewer rates. Assured has filed a joinder to the indenture trustee's motion. These stay relief motions generally allege that the Commission has failed to adequately protect the interests of the sewer warrant holders and that other "cause" exists to lift the automatic stays. The motions do not seek damages from the Commission. The matter is currently in discovery, and a final hearing commenced on January 30, 2013. The likely outcome of this matter is unknown.

Internal Revenue Service Examinations. The Commission has received and responded to (i) Examination Letters dated May 2, 2011, from the Internal Revenue Service with respect to the Commission's Sewer Revenue Refunding Warrants, Series 2003-B and 2003-C and (ii) an Examination Letter dated June 28, 2012, received from the Internal Revenue Service with respect to The Jefferson County Public Building Authority's Lease Revenue Warrants, Series 2006. In each case, the IRS has undertaken a review of compliance with the federal tax laws and regulations applicable to the excludability of interest on the warrants under examination from gross income of the holders thereof for federal income tax purposes. The likely outcome of this matter is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Claims Relating to Layoffs at Cooper Green. On or about December 19, 2012, letters were sent to approximately 210 employees of Cooper Green, advising them that they were being placed on administrative leave without pay. On December 27, 2012, the Commission received a letter from Birmingham, Alabama attorney Emory Anthony (the Anthony Letter) in which he asserted, among other things, that the Commission used the incorrect Personnel Board rule to lay off these 210 employees and that the Commission failed to follow appropriate procedures in laying off these employees. The Commission has advised the Personnel Board of the Anthony Letter. The likely outcome of this matter is unknown.

Claims Relating to Landfill Operation. The Commission owns a landfill which it leases to Santek, a private operator. Prior to the commencement of the Bankruptcy Case, the Commission, as a municipality, was excepted from the general requirement that it post a bond or other financial security with the Alabama Department of Environmental Management ("ADEM") as a condition to the operation of such landfill. ADEM has advised the Commission that ADEM does not believe that the Commission is currently entitled to benefit from such exception and, accordingly, has requested that a bond or other financial security be posted with ADEM. The likely outcome of this matter is unknown.

The Commission is currently defending various other lawsuits. In addition, claims against the Commission have been filed that have not yet resulted in lawsuits. The Commission shall continue to consult with legal counsel regarding these lawsuits and claims and defend against them. As of September 30, 2011, the Commission has accrued any estimated litigation costs in the accompanying statement of net assets.

Additionally, a process was established in the Bankruptcy Case pursuant to which any party asserting a claim against the Commission arising before the commencement of the Bankruptcy Case could file a "proof of claim" against the Commission. To date, over one thousand proofs of claim have been filed in the Bankruptcy Case. The Commission has not yet reviewed all of the proofs of claim that have been filed. The Commission is likely to object eventually to many of these proofs of claim on various grounds.

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 - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

The Commission adopted GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, as of 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 adoption of this statement did not have a material impact on the Commission's financial statements.

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the Commission as of 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. Until a Plan of Adjustment is approved by the court, the Commission does not believe any changes to the financial statements are required. The adoption of this statement did not have a material impact on the Commission's financial statements.

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.

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

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.

In June 2011, the GASB issued Statement No. 64, *Derivative Instruments: Application of Hedge Accounting Termination Provisions*, which is effective for the Commission beginning with the fiscal year ending September 30, 2012. GASB Statement No. 64 clarifies whether an effective hedging relationship continues after the replacement of an interest rate swap counterparty or an interest rate swap counterparty's credit support provider. This statement sets forth criteria that establish when the effective hedging relationship continues and hedge accounting should continue to be applied. The adoption of this statement did not have a material impact on the Commission's financial position since the terminated interest rate swap agreements had been previously recorded at their fair values due to their terminations.

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which is effective for the Commission beginning with the fiscal year ending September 30, 2014. This statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources, such as changes in the determination of the major fund calculations and limiting the use of the term *deferred* in financial statement presentations. The effect of the implementation of this statement is not expected to have a material impact on the Commission's financial statements.

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

In March 2012, the GASB issued Statement No. 66, *Technical Corrections - 2012*, which is effective for the Commission beginning with the fiscal year ending September 30, 2014. This statement was issued to improve accounting and financial reporting for a governmental financial reporting entity by resolving conflicting guidance that resulted from the issuance of two pronouncements, GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, and GASB Statement No. 62, *Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements*. The effect of the implementation of this statement on the Commission's financial statements has not been determined.

In June 2012, the GASB issued Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*, which are effective for the Commission beginning with the fiscal year ending September 30, 2015. These statements were issued to improve financial reporting by state and local governmental pension plans. GASB Statement No. 67 replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans*, and No. 50, *Pension Disclosures*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The effect of the implementation of these statements on the Commission's financial statements has not been determined.

NOTE U - 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 sufficient to meet operating expenses and to service the regularly-scheduled debt on the System.

NOTE U - UNCERTAINTIES - Continued

As a result of these events, debt service on the System debt, taking into account the accelerated payments due to the liquidity banks, has exceeded the net revenues of the System. As of September 30, 2011, 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 in 2008 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 (the Bankruptcy Code); 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 System'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.

Beginning in fiscal 2009, the Commission 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 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 had 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.

NOTE U - UNCERTAINTIES - Continued

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 did not file a petition under Chapter 9, among other things, the Receiver agreed to delay a planned System rate increase for the same period and to give the Commission 10 days' notice of his intent to terminate the forbearance period. On September 16, 2011, the Commission approved a nonbinding term sheet for the restructuring of the System debt. The term sheet was countersigned by the Receiver, who presented himself to the Commission as an intermediary for holders of the vast majority of the System's debt. After more than seven weeks of negotiation, the Commission was unable to obtain the agreement of the majority-holders of the System's debt to enter into a definitive restructuring agreement implementing the economic concessions contemplated in the term sheet.

Meanwhile, the Receiver pushed forward with his efforts to raise sewer rates on System customers and with his demands for $75 million received by the Commission's general funds from JP Morgan Securities pursuant to a settlement with the Securities Exchange Commission. (See Note S)

On November 9, 2011, the Commission approved a resolution authorizing the filing of a petition in the name of Jefferson County for relief under Chapter 9 of the Bankruptcy Code. Such petition for relief was filed on November 9, 2011, in the U.S. Bankruptcy Court for the Northern District of Alabama, Southern Division (the Bankruptcy Court) and is styled *In re: Jefferson County, Alabama*, Case number 11-05736-9 (the Bankruptcy Case). Upon the commencement of the Bankruptcy Case, the automatic stay provisions imposed by the Bankruptcy Code discontinued the Receiver's authority over the System and restored control of the System to the Commission. The Trustee for the sewer warrants, along with other parties, has filed motions in the Bankruptcy Case requesting relief from the automatic stay. See Note S for a discussion of the Bankruptcy Case and related litigation. The Commission is currently negotiating with various holders of the System's debt to restructure the System's nonrecourse obligations through a Chapter 9 plan of adjustment. However, the outcome of those negotiations cannot be assured at this time.

NOTE U - UNCERTAINTIES - Continued

There are also uncertainties relating to the Commission's general fund. 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. Prior to the commencement of the Bankruptcy Case, the Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional but did not decide the question whether the Commission would be required to refund the taxes collected prior to December 1, 2010. On November 16, 2012, the Supreme Court of Alabama ruled that the Commission was not required to refund taxes collected prior to December 1, 2010. The Bankruptcy Court subsequently modified the automatic stay under Chapter 9 of the Bankruptcy Code to allow the plaintiffs in the case to file a petition for writ of certiorari to the Supreme Court of the United States. No writ of certiorari has been filed. See Note S for a discussion of the related litigation.

The loss of the occupational and business license tax eliminated over $75 million of annual revenues used to fund the Commission's general operations and payment of long-term general obligations. The Commission lacks "home rule" to allow it to reauthorize these lost tax revenues. Legislative efforts to restore or replace the occupational and business license tax revenues have not been successful to date. Accordingly, the Commission has implemented cuts in staffing and services. The Commission's general fund problem was another factor precipitating the Commission's decision to file for Chapter 9 relief. The loss of this tax revenue could have a material effect on future operations. While the Legislature may take action in the future to enhance the Commission's general fund revenues, the outcome of any legislative efforts cannot be assured at this time.

The Commission depends on financial resources flowing from, or associated with, both the Federal Government and the State of Alabama. Because of this dependency, the Commission is subject to changes in specific flows of intergovernmental revenues based on modifications to Federal and State laws and Federal and State appropriations. It is also subject to changes in investment earnings and asset values associated with U.S. Treasury Securities because of actions by foreign government and other holders of publicly held U.S. Treasury Securities.

NOTE V - SUBSEQUENT EVENTS

On February 22, 2011, the Commission authorized the sale of its nursing home facility to 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. As a result, on September 13, 2011, the Commission agreed to sell 238 licensed beds at the nursing home to an unrelated Alabama entity for $8,300,000. On May 21, 2012, Healthsouth Corporation filed a "notice of opposition and intervention" with the Alabama State Health Planning and Development Agency opposing the sale of the nursing home beds. On May 24, 2012, the Commission accepted a letter of intent from an unrelated New York-based company to sell the capital assets of the nursing home facility for $2,950,000 contingent on the completion of certain due diligence procedures. On January 17, 2013, Healthsouth Corporation reached a settlement with the unrelated Alabama entity to allow the Commission to sell the licensed beds. As of the date of our audit report, the sale of neither the beds nor the capital assets was certain. At September 30, 2011, an impairment loss of $4,661,000 was recognized due to the decline in service utility of the nursing home capital assets.

On August 28, 2012, the Commission voted to close the inpatient care unit at Cooper Green Mercy Hospital. The Commission continues to work through the details to provide cost-effective healthcare to the indigent residents of Jefferson County. The Commission is currently evaluating the potential impairment of the hospital's capital assets, which have a net book value of $36,871,000 at September 30, 2011.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Material Event Notices

October 4, 2011 - The October 4, 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 October 1, 2011. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on October 1, 2011.

NOTE V - SUBSEQUENT EVENTS - Continued

November 9, 2011 - The November 9, 2011, Material Event Notice disclosed that the Commission authorized the filing of a petition for relief under Chapter 9 of the United States Bankruptcy Code on behalf of and in the name of Jefferson County. The petition was filed with the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, at 4:29 p.m. CST, November 9, 2011, and is styled *In re: Jefferson County, Alabama*, Case No. 11-05736-9.

January 5, 2012 - The January 5, 2012, 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 January 1, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on January 1, 2012.

February 7, 2012 - The February 7, 2012, Material Event Notice disclosed that the Commission had requested additional information from the Trustee regarding debt service payments made during February 2012, as well as information regarding the application of sewer revenues for December 2011 and January 2012.

February 13, 2012 - The February 13, 2012, Material Event Notice disclosed that the Trustee had disseminated a Notice to Holders dated February 7, 2012, to holders of certain Sewer Warrants to provide an update on the status of current bankruptcy proceedings.

March 9, 2012 - The March 9, 2012, Material Event Notice disclosed that the Commission had retained Kurtzman Carson Consultants LLC as Claims Noticing and Balloting Agent during the pendency of the Commission's Chapter 9 Bankruptcy Case.

April 6, 2012 - The April 6, 2012, 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, $9,135,000 in aggregate principal amount of Warrants was due for accelerated redemption on April 2, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on April 2, 2012.

NOTE V - SUBSEQUENT EVENTS - Continued

July 9, 2012 - The July 9, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C 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, $20,000 in aggregate principal amount of Warrants was due for accelerated redemption on July 2, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on July 2, 2012.

***January 25, 2013* -** The January 25, 2013, Material Event Notice disclosed a ratings downgrade related to the Series 2003-B and 2003-C Warrants insured by Ambac. On January 17, 2013, the long-term insured rating assigned to the Warrants was reduced from "Aa3" to "A2" by Moody's in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of Ambac. The current reduced rating of the Warrants is classified as "Stable" by Moody's. In addition, the current "AA-" long-term insured rating assigned to the Warrants by S&P is listed as "Stable".

February 1, 2013 - The February 1, 2013, Material Event Notice disclosed that a payment default had occurred on certain Sewer Capital Improvement and Refunding Warrants (Series 1997-A, Series 2001-A, Series 2002-A, Series 2002-C and Series 2003-B Warrants). Debt service payments on certain of the Warrants were due on February 1, 2013. The Trustee has disseminated the Notice of Holders dated February 1, 2013 (the "Trustee Notice"). Pursuant to an order of the Bankruptcy Court filed on July 2, 2012, the Commission had been remitting the net revenues of the Commission's Sewer System to the Trustee in the manner provided by Article XI of the Trust Indenture. The Trustee Notice states that the Trustee has decided to hold such net revenues remitted by the Commission and suspend payment of debt service on the Warrants, as well as any draws on insurance policies securing the Warrants, until further notice. In addition, the Trustee Notice describes the Trustee's intent to (i) file a complaint for declaratory judgment with the Bankruptcy Court to address disputes regarding interpretation of the Trust Indentures and (ii) file with the Bankruptcy Court a motion for relief from automatic stay in the Chapter 9 Proceeding to permit the Trustee in its discretion to accelerate certain of the Warrants effective as of February 1, 2013.

NOTE V - SUBSEQUENT EVENTS - Continued

February 15, 2013 **-** The February 15, 2013, Material Event Notice disclosed a ratings downgrade related to the Series 1997-A, 2001-A, 2002-A, 2002-C, 2003-B and 2003-C Warrants. On February 13, 2013, the underlying rating assigned to the Warrants by Moody's was reduced from "Caa3" to "Ca". The current underlying rating of the Warrants is classified as "Outlook Negative" by Moody's.

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 $202,941 as of September 30, 2011.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Event Notices

November 9, 2011 - The November 9, 2011 Material Event Notice disclosed that the Commission authorized the filing of a petition for relief under Chapter 9 of the United States Bankruptcy Code on behalf of and in the name of Jefferson County. The petition was filed with the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, at 4:29 p.m. CST, November 9, 2011, and is styled *In re: Jefferson County, Alabama,* Case No. 11-05736-9.

November 18, 2011 **-** The November 18, 2011, Material Event Notice disclosed a ratings downgrade related to the General Obligation Warrants. Certain of the Warrants are insured by National (GO Series 2003-A and 2004-A Warrants). On November 11, 2011, the underlying rating assigned to the Warrants by S&P was reduced from "B" to "C".

In addition, on November 14, 2011, the Trustee of the GO Series 2001-B Warrants provided notice of its resignation as trustee under Section 13.9(b) of the Trust Indenture, effective upon the appointment of a successor trustee and the delivery of a written acceptance by the successor trustee to the Commission and the Trustee.

November 18, 2011 **-** The November 18, 2011, Material Event Notice disclosed a ratings downgrade related to the LO School Warrants insured by Ambac (LO Series 2005-A and 20005-B Warrants). On November 11, 2011, the underlying rating assigned to the Warrants by S&P was reduced from "BBB-" to "B". The current underlying rating of the Warrants is classified as "Credit Watch Developing" by S&P.

NOTE V - SUBSEQUENT EVENTS - Continued

***November 18, 2011* -** The November 18, 2011, Material Event Notice disclosed a ratings downgrade related to the LR Series 2006 Warrants insured by Ambac. On November 11, 2011, the rating assigned to Warrants by S&P was reduced from “B-” to “C”. The current underlying rating of the Warrants is classified as “Credit Watch Negative” by S&P.

***December 1, 2011* -** The December 1, 2011, Material Event Notice disclosed the appointment of Wells Fargo Bank, N.A. as successor trustee (the “Successor Trustee”) for the GO Series 2001-B Warrants. The appointment occurred on November 21, 2011, and was subject to the Successor Trustee’s written acceptance of appointment. On November 23, 2011, the Successor Trustee’s appointment became effective upon delivery of such acceptance to the Commission and the Trustee.

March 9, 2012 - The March 9, 2012, Material Event Notice disclosed that the Commission had retained Kurtzman Carson Consultants LLC as Claims Noticing and Balloting Agent during the pendency of the Commission’s Chapter 9 Bankruptcy Case.

March 30, 2012 - The March 30, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission announced that it will not make the principal and interest payments on the GO Series 2001-B, 2003-A and 2004-A Warrants due April 1, 2012. The Commission expects to suspend payment on the Warrants until debt service on the Warrants can be restructured under the Commission’s Plan of Adjustment under Chapter 9.

March 30, 2012 - The March 30, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission failed to make the April 1, 2012, required lease principal payment in the amount of $4,130,000 and interest payment in the amount of $2,081,297 related to the LR Series 2006 Warrants. Under the Lease Agreement, the Commission is required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants. The Commission also stated that it does not plan to make a lease payment prior to April 1, 2012. The Commission expects that the Trustee will draw upon available monies on deposit in the Reserve Fund established under the Indenture to pay the principal and interest due on April 1, 2012.

NOTE V - SUBSEQUENT EVENTS - Continued

April 6, 2012 - The April 6, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission adopted a resolution instructing the County Manager to forego paying the April 2, 2012, debt service payments related to the GO Series 2001-B, 2003-A and 2004-A Warrants. Certain of the Warrants are insured by National.

The debt service payments for the National-insured Warrants were paid by draws on the National policies insuring such Warrants. The Commission expects to suspend payment on the Warrants until debt service on the Warrants can be restructured under the Commission's Plan of Adjustment under Chapter 9.

In addition, on April 2, 2012, the underlying rating assigned to the GO Series 2001-B, 2003-A and 2004-A Warrants by Moody's was reduced from "Caa1" to "Caa3". The current underlying rating of the Warrants is classified as "Under Review for Downgrade" by Moody's. On April 4, 2012, the underlying rating assigned to the National-insured Warrants by S&P was reduced from "C" to "D".

April 6, 2012 - The April 6, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission failed to make the April 1, 2012, required lease payment (discussed in the March 30, 2012, Notice above). The Trustee delivered a Notice of Default to the Commission by letter dated March 30, 2012, stating an Event of Default occurred under the Lease Agreement as a result of the Commission's failure to make the lease payment on March 28, 2012.

Failure by the Commission to pay the principal and interest on the LR Series 2006 Warrants in the amount of $6,211,297 when due on April 2, 2012, resulted in an Indenture Default. The Trustee drew upon available monies on deposit in the Reserve Fund established under the Indenture to pay the debt service due on April 2, 2012. The occurrence of an Event of Default under the Lease Agreement also created an additional Indenture Default.

In addition, on April 2, 2012, the underlying rating assigned to the LR Series 2006 Warrants by Moody's was reduced from "Caa2" to "Ca". The current underlying rating of the Warrants is classified as "Under Review for Downgrade" by Moody's.

August 23, 2012 - The August 23, 2012, Material Event Notice disclosed that on August 22, 2012, the Commission filed a motion in the United States Bankruptcy Court for the Northern District of Alabama, Southern Division, to reject the Lease Agreement related to the LR Series 2006 Warrants under Section 365(a) of the Bankruptcy Code.

NOTE V - SUBSEQUENT EVENTS - Continued

September 26, 2012 - The September 26, 2012, Material Event Notice disclosed under the Lease Agreement related to the LR Series 2006 Warrants, the Commission was required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants.

Interest in the amount of $1,978 was due with respect to the Warrants on October 1, 2012. The Commission did not make the required lease payment on September 26, 2012, and does not plan to make a lease payment prior to October 1, 2012. The Commission expects that the Trustee will draw upon available monies on deposit in the Reserve Fund established under the Indenture to pay interest due on October 1, 2012.

September 26, 2012 - The September 26, 2012, Material Event Notice disclosed that on September 25, 2012, the Commission adopted a resolution instructing the County Manager to forego paying the October 1, 2012, debt service payments related to the GO Series 2003-A, 2004-A and 2001-B Warrants. The Commission expects to suspend further debt service payments on the Warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9 of the Bankruptcy Code.

October 8, 2012 - The October 8, 2012, Material Event Notice disclosed that the Commission received a letter from the Internal Revenue Service (IRS) stating that an examination has been initiated of the Lease Revenue Warrants, Series 2006 to determine compliance with federal tax requirements. If the IRS determines that federal tax laws or regulations applicable to the Series 2006 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.

January 17, 2013 - The January 17, 2013, Material Event Notice disclosed that the Commission had finalized the settlement and restructuring of its obligations with respect to the Warrants as described in the Trustee's *Notice to Warrantholders of Stipulation and Agreement with Jefferson County, Alabama, the Jefferson County Public Building Authority and Ambac Assurance Corporation* (LR Series 2006 Warrants) dated November 28, 2012, and is available on the Municipal Securities Rulemaking Board's Electronic Municipal Market Access site. The effective date of the settlement was January 9, 2013, and the Commission's obligations are now governed by the Indenture and a new Lease Agreement dated as of January 1, 2013. Also, see Note J - Warrants Payable, notice of event of default LR Series 2006 Warrants.

NOTE V - SUBSEQUENT EVENTS - Continued

February 15, 2013 - The February 15, 2013, Material Event Notice disclosed that the Commission has entered into a Plan Support Agreement dated as of February 11, 2013 (the Plan Support Agreement) between the Commission and Depfa Bank PLC, as holder of the entire outstanding principal amount of the Commission's LO Series 2005-B Warrants.

Under the terms of the Plan Support Agreement, the Commission has agreed to direct the Indenture Trustee (U.S. Bank) to utilize excess sales tax proceeds on hand and any future excess sales tax proceeds to make mandatory redemption payments for the LO Series 2005-A Warrants held by Depfa Bank PLC (under a standby warrant purchase agreement) in March 2013 and annually thereafter, foregoing any payments against principal amounts scheduled for redemption for such warrants pursuant to the amortization schedule. As part of the proposed plan, Depfa Bank PLC has agreed to reduce the interest rate on the Warrants to prime rate plus 2.25 percent and all Events of Default and cross defaults existing now or through the effective date of this plan for the Standby Warrant Purchase Agreements with Depfa Bank PLC shall be deemed waived without any requirement that the Commission take any action to cure or otherwise eliminate any such Event of Default.

Update on Bankruptcy Filing

While the Commission has ongoing negotiations regarding the warrants payable, a plan of reorganization has not been submitted or approved by the Bankruptcy Court subsequent to year end, and no adjustments have been recorded to the assets and liabilities reported herein through the date of these financial statements.

Lease Agreement

The Commission entered into a replacement lease agreement effective January 1, 2013, for the Jefferson County Public Building Authority related to the LR Series 2006 Warrants. The Lease Agreement is being issued to implement that certain Stipulation and Agreement Regarding the Settlement and Resolution of Certain Disputes entered into by and among the Commission, the Public Building Authority, the Trustee for the LR Series 2006 Warrants and Ambac (the Bond insurer for these warrants). (Also, see Note S.) Simultaneous with the Lease Agreement, the Public Building Authority and Trustee for the LR Series 2006 Warrants have executed and delivered a First Supplemental Trust Indenture dated as of January 1, 2013 (see below). The lease is subject to renewal on an annual basis. Annual lease payments range from $3.2 million to $5.2 million, including partial payments to be made by the bond insurer for years 2016 to 2026.

NOTE V - SUBSEQUENT EVENTS - Continued

First Supplemental Trust Indenture

The LR Series 2006 Warrants were issued pursuant to a Trust Indenture, dated August 1, 2006, between the Public Building Authority and First Commercial Bank. The First Supplemental Trust Indenture dated as of January 1, 2013, was entered into by and between the Jefferson County Public Building Authority and First Commercial Bank. The new agreement modifies certain provisions of the original indenture and establishes a debt service reserve fund, among other modifications.

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 100,708	$ 100,708	$ 98,969	$ 98,969
Licenses and permits	74,833	74,833	17,830	17,830
Intergovernmental	43,128	32,563	35,852	35,852
Charges for services, net	71,095	70,980	31,021	31,021
Miscellaneous	25,750	25,774	34,389	34,389
Interest and investment income	1,600	1,550	1,871	1,871
	317,114	306,408	219,932	219,932
Expenditures				
Current:				
General government	212,212	211,746	136,754	136,754
Public safety	63,621	65,934	62,274	62,274
Highway and roads	36,164	36,164	19,890	19,890
Culture and recreation	286	286	286	286
Education - other	115	115	1	1
Capital outlay	-	-	1,607	1,607
Indirect expenses	-	-	(12,632)	(12,632)
Debt service:				
Principal retirement	-	-	357	357
Interest and fiscal charges	-	-	25	25
	312,398	314,245	208,562	208,562
Excess of Revenues over Expenditures	4,716	(7,837)	11,370	11,370
Other Financing Sources (Uses)				
Sale of capital assets, net	-	19	-	-
Proceeds from capital leases	-	-	1,213	1,213
Transfers in	-	-	50	50
Transfers out	-	-	(18,735)	(18,735)
	-	19	(17,472)	(17,472)
Net Changes in Fund Balances	4,716	(7,818)	(6,102)	(6,102)
Fund Balances - beginning of year, as restated	85,481	85,481	85,481	85,481
Fund Balances - end of year	$ 90,197	$ 77,663	$ 79,379	$ 79,379

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - LIMITED OBLIGATION SCHOOL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ -	$ -	$ 87,774	$ 87,774
Interest and investment income	77,174	77,174	160	160
	77,174	77,174	87,934	87,934
Expenditures				
General government	597	50	29	29
Education - other	-	-	50	50
Debt service:				
Principal retirement	31,005	31,005	31,005	31,005
Interest and fiscal charges	45,572	46,119	40,691	40,691
	77,174	77,174	71,775	71,775
Net Changes in Fund Balances	-	-	16,159	16,159
Fund Balances - beginning of year	134,149	134,149	134,149	134,149
Fund Balances - end of year	$ 134,149	$ 134,149	$ 150,308	$ 150,308

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - INDIGENT CARE FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 41,859	$ 41,859	$ 43,774	$ 43,774
Miscellaneous	-	-	11	11
	41,859	41,859	43,785	43,785
Expenditures				
Indirect expenses	-	-	-	-
Excess of Revenues over Expenditures	41,859	41,859	43,785	43,785
Other Financing Sources (Uses)				
Transfers out	-	-	(42,952)	(42,952)
Net Changes in Fund Balances	41,859	41,859	833	833
Fund Balances - beginning of year	8,603	8,603	8,603	8,603
Fund Balances - end of year	$ 50,462	$ 50,462	$ 9,436	$ 9,436

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - BRIDGE AND PUBLIC BUILDING FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2011

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 41,496	$ 41,496	$ 40,405	$ 40,405
Intergovernmental	500	500	841	841
Interest and investment income	-	-	51	51
	41,996	41,996	41,297	41,297
Expenditures				
Indirect expenses	-	-	-	-
	-	-	-	-
Excess of Revenues over Expenditures	41,996	41,996	41,297	41,297
Other Financing Sources (Uses)				
Transfers in	-	-	2,102	2,102
Transfers out	-	-	(43,399)	(43,399)
	-	-	(41,297)	(41,297)
Net Changes in Fund Balances	41,996	41,996	-	-
Fund Balances (Deficit) - beginning of year	-	-	-	-
Fund Balances (Deficit) - end of year	$ 41,996	$ 41,996	$ -	$ -

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF FUNDING PROGRESS -
DEFINED BENEFIT PENSION PLAN AND OTHER
POSTEMPLOYMENT BENEFITS PLAN
(UNAUDITED)
SEPTEMBER 30, 2011

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. The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to termination, disability, mortality and the time value of money to the accumulated plan benefits.

Schedule of Funding Progress for Defined Benefit Pension Plan

(In Thousands)

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL) Entry Age (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL As a Percentage of Covered Payroll [(b-a)/c]**
10/01/11	$ 949,368	$ 899,516	$ (49,852)	105.54%	$ 138,971	(35.9%)
10/01/10	965,690	885,063	(80,627)	109.11%	152,923	(52.7%)
10/01/09	973,523	909,779	(63,744)	107.01%	158,254	(40.3%)

Schedule of Funding Progress for Other Postemployment Benefits Plan

(In Thousands)

Actuarial Valuation Date	**Actuarial Value of Assets (a)**	**Actuarial Accrued Liability (AAL) Projected Unit Credit (b)**	**Unfunded AAL (UAAL) (b-a)**	**Funded Ratio (a/b)**	**Covered Payroll (c)**	**UAAL As a Percentage of Covered Payroll [(b-a)/c]**
09/30/11	$ -	$ 80,163	$ 80,163	0%	$ 138,971	57.7%
09/30/10	-	90,809	90,809	0%	152,923	59.4%
09/30/09	-	90,809	90,809	0%	158,254	57.4%
09/30/08	-	68,052	68,052	0%	163,182	41.7%

See independent auditors' report.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Community Development Fund	Debt Service Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Cash and investments	$ -	$ -	$ 15,658	$ -	$ 1,986	$ -	$ 1	$ 17,645
Accounts receivable, net	-	-	4	-	-	-	32	36
Due from (to) other governments	-	2,052	-	-	83	-	4,958	7,093
Loans receivable, net	936	-	-	-	-	394	-	1,330
Restricted assets	-	-	-	27,619	-	-	-	27,619
Advances due from (to) other funds	(27)	16,800	-	-	-	(10)	(3,880)	12,883
	$ 909	$ 18,852	$ 15,662	$ 27,619	$ 2,069	$ 384	$ 1,111	$ 66,606
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	$ 372	$ -	$ 10	$ 404	$ 22	$ 284	$ 502	$ 1,594
Deferred/unearned revenue	92	-			-		-	92
Accrued wages and benefits	19	-	-	-	-	2	13	34
Accrued interest	-	3,817	-	2,081	-	-	-	5,898
Debt service costs	-	7,894	-	-	-	-	-	7,894
Retainage payable	-	-	76	239	-	-	-	315
Total Liabilities	483	11,711	86	2,724	22	286	515	15,827
Fund Balances (Deficit)								
Nonspendable	-	-	-	-	-	-	-	-
Restricted	426	16,800	-	27,619	-	98	-	44,943
Committed	-	2,052	15,576	-	2,047	-	596	20,271
Assigned	-	-	-	-	-	-	-	-
Unassigned	-	(11,711)	-	(2,724)	-	-	-	(14,435)
	426	7,141	15,576	24,895	2,047	98	596	50,779
	$ 909	$ 18,852	$ 15,662	$ 27,619	$ 2,069	$ 384	$ 1,111	$ 66,606

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Community Development Fund	Debt Service Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Revenues								
Intergovernmenta	$ 5,582	$ 2,052	$ -	$ -	$ 1,747	$ 1,361	$ 938	$ 11,680
Charges for services, net	-	-	-	-	-	-	601	601
Miscellaneous	121	-	-	-	-	-	12,219	12,340
Interest and investment incom	29	-	-	510	-	87	-	626
	5,732	2,052	-	510	1,747	1,448	13,758	25,247
Expenditures								
Current:								
General governmen	4,972	-	31	-	15	1,443	-	6,461
Public safety	-	-	-	-	-	-	18,003	18,003
Highway and roads	-	-	-	-	15	-	-	15
Health and welfare	41	-	-	-	-	-	-	41
Capital outlay	1,429	-	1,114	6,781	3,151	-	-	12,475
Indirect expenses	474	-	-	-	-	22	326	822
Debt service:								
Principal retirement	-	12,055	2,212	1,135	-	-	-	15,402
Interest and fiscal charges	-	9,984	86	4,193	-	-	-	14,263
		-						
	6,916	22,039	3,443	12,109	3,181	1,465	18,329	67,482
Excess (Deficiency) of Revenues over Expenditure	(1,184)	(19,987)	(3,443)	(11,599)	(1,434)	(17)	(4,571)	(42,235)
Other Financing Sources (Uses)								
Transfers in	295	26,129	21,127	5,343	3,181	-	5,108	61,183
Transfers out	-	(5,343)	(2,108)	(7,038)	-	-	-	(14,489)
	295	20,786	19,019	(1,695)	3,181	-	5,108	46,694
Net Changes in Fund Balance	(889)	799	15,576	(13,294)	1,747	(17)	537	4,459
Fund Balances - beginning of yea	1,315	6,342	-	38,189	300	115	59	46,320
Fund Balances - end of year	$ 426	$ 7,141	$ 15,576	$ 24,895	$ 2,047	$ 98	$ 596	$ 50,779

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2011
(IN THOUSANDS)

ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Current Assets				
Cash and investments	$ 664	$ 288	$ 3,463	$ 4,415
Patient accounts receivable, net	-	945	-	945
Accounts receivable, net	108	-	61	169
Due to other governments	-	-	(1,300)	(1,300)
Inventories	5	-	-	5
Deferred charges - issuance costs	-	-	3	3
Total Current Assets	777	1,233	2,227	4,237
Noncurrent Assets				
Restricted assets	1,993	-	1,888	3,881
Advances due from (to) other funds	(16,800)	-	(15,317)	(32,117)
Deferred charges - issuance costs	-	-	1	1
Capital assets:				
Depreciable assets, net	25,147	2,941	4,254	32,342
Nondepreciable assets	8,115	9	12,557	20,681
	18,455	2,950	3,383	24,788
	$ 19,232	$ 4,183	$ 5,610	$ 29,025

See independent auditors' report.

LIABILITIES AND NET ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Current Liabilities				
Accounts payable	$ -	$ 680	$ 3	$ 683
Accrued wages and benefits	-	66	-	66
Accrued interest	-	-	3	3
Estimated claims liability	-	163	-	163
Estimated liability for compensated absences	-	141	-	141
Warrants payable	-	-	1,435	1,435
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(9)	(9)
	-	-	1,425	1,425
Total Current Liabilities	-	1,050	1,431	2,481
Noncurrent Liabilities				
Warrants payable	-	-	415	415
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(3)	(3)
	-	-	411	411
Estimated liability for landfill closure and postclosure care costs	9,837	-	-	9,837
Estimated claims liability	-	117	-	117
Estimated liability for other postemployment benefits	-	146	-	146
Estimated liability for compensated absences	-	155	-	155
Total Liabilities	9,837	1,468	1,842	13,147
Net Assets (Deficit)				
Invested in capital assets, net of related debt	33,262	2,950	(1,639)	34,573
Restricted for:				
Debt service	-	-	1,888	1,888
Closure and postclosure care	1,993	-	-	1,993
Unrestricted	(25,860)	(235)	3,519	(22,576)
	$ 9,395	$ 2,715	$ 3,768	$ 15,878

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Operating Revenues				
Charges for services, net	$ -	$ 9,865	$ -	$ 9,865
Other operating revenue	1,266	209	637	2,112
	1,266	10,074	637	11,977
Operating Expenses				
Salaries	-	3,890	227	4,117
Employee benefits and payroll taxes	20	1,295	17	1,332
Materials and supplies	-	1,059	-	1,059
Utilities	-	797	25	822
Outside services	-	3,021	107	3,128
Office expenses	-	97	112	209
Depreciation	1,861	395	289	2,545
Closure and postclosure care	178	-	-	178
Indirect expenses	14	1,933	-	1,947
Miscellaneous	-	714	9	723
	2,073	13,201	786	16,060
Operating Loss	(807)	(3,127)	(149)	(4,083)
Nonoperating Revenues (Expenses)				
Interest expense, net	(900)	-	(168)	(1,068)
Interest revenue	3	-	9	12
Amortization of warrant related costs	(96)	-	(24)	(120)
Loss on impairment of capital assets	-	(4,684)	-	(4,684)
Gain (loss) on sale or retirement of capital assets	(5)	(19)	273	249
	(998)	(4,703)	90	(5,611)
Operating Transfers				
Transfers in	-	2,716	-	2,716
Change in Net Assets	(1,805)	(5,114)	(59)	(6,978)
Net Assets - beginning of year, as previously reported	9,663	7,899	3,827	21,389
Prior Period Adjustments	1,537	(70)	-	1,467
Net Assets - beginning of year, as restated	11,200	7,829	3,827	22,856
Net Assets - end of year	$ 9,395	$ 2,715	$ 3,768	$ 15,878

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Cash Flows from Operating Activities				
Cash received from services	$ -	$ 10,065	$ 637	$ 10,702
Cash payments to employees	(24)	(5,451)	(244)	(5,719)
Cash payments for goods and services	(19)	(6,542)	(246)	(6,807)
Other receipts and payments, net	467	(570)	(255)	(358)
Net Cash Provided (Used) by Operating Activities	424	(2,498)	(108)	(2,182)
Cash Flows from Noncapital Financing Activities				
Operating transfers in	-	2,716	-	2,716
Net Cash Provided by Noncapital Financing Activities	-	2,716	-	2,716
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	-	-	(312)	(312)
Sale of capital assets	-	-	695	695
Interest paid	(900)	-	(170)	(1,070)
Principal payments on warrants	-	-	(1,387)	(1,387)
Net Cash Used by Capital and Related Financing Activities	(900)	-	(1,174)	(2,074)
Cash Flows from Investing Activities				
Interest received	3	-	9	12
Miscellaneous	1,536	4	(3)	1,537
Net Cash Provided by Investing Activities	1,539	4	6	1,549
Change in Cash and Investments	1,063	222	(1,276)	9
Cash and Investments - beginning of year	1,594	66	6,627	8,287
Cash and Investments - end of year	$ 2,657	$ 288	$ 5,351	$ 8,296
Displayed As				
Cash and investments	$ 664	$ 288	$ 3,463	$ 4,415
Restricted assets - noncurrent cash and investments	1,993	-	1,888	3,881
	$ 2,657	$ 288	$ 5,351	$ 8,296

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2011
(IN THOUSANDS)
(Continued)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (807)	$ (3,127)	$ (149)	$ (4,083)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	1,861	395	289	2,545
Provision for bad debts	-	992	-	992
Change in patient accounts receivable	-	(792)	-	(792)
Change in accounts receivable	(11)	-	-	(11)
Change in inventories	(5)	40	-	35
Change in prepaid expenses	-	45	-	45
Change in advances due from (to) other funds	(1,186)	-	(246)	(1,432)
Change in accounts payable	-	280	(2)	278
Change in accrued wages and benefits	(4)	(216)	-	(220)
Change in estimated claims liability	-	(64)	-	(64)
Change in estimated liability for compensated absences	-	(127)	-	(127)
Change in estimated liability for landfill closure and postclosure care costs	576	-	-	576
Change in estimated liability for other postemployment benefits	-	76	-	76
	1,231	629	41	1,901
Net Cash Provided (Used) by Operating Activities	$ 424	$ (2,498)	$ (108)	$ (2,182)
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain (loss) on sale or retirement of capital assets	$ (5)	$ (19)	$ 273	$ 249

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
SEPTEMBER 30, 2011
(IN THOUSANDS)

	Balance October 1, 2010	Additions	Deductions	Balance September 30, 2011
City of Birmingham Revolving Loan Fund				
Assets				
Cash and investments	$ 769	$ 70	$ (7)	$ 832
Loans receivable, net	269	12	(60)	221
	$ 1,038	$ 82	$ (67)	$ 1,053
Liabilities				
Due to other governments	$ 1,038	$ 16	$ (1)	$ 1,053

See independent auditors' report.

ADDITIONAL INFORMATION

JEFFERSON COUNTY COMMISSION
COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL
(UNAUDITED)
SEPTEMBER 30, 2011

Commission Members As of February 22, 2013			**Term Expires**
Hon. David Carrington	President	Suite 230 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. George T. Bowman	Member	Suite 240 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. Sandra Little Brown	Member	Suite 250 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

Administrative Personnel As of February 22, 2013		
George J. Tablack	Chief Financial Officer	Suite 810 Jefferson County Courthouse Birmingham, AL 35263
Jeffrey M. Sewell	County Attorney	Suite 280 Jefferson County Courthouse Birmingham, AL 35263