

JEFFERSON COUNTY COMMISSION
AUDITED FINANCIAL STATEMENTS
SEPTEMBER 30, 2007

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INDEPENDENT AUDITORS' REPORT

January 20, 2009

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, 2007, which collectively comprise the Commission's basic financial statements as listed in the table of 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 examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

To the Commissioners
Jefferson County Commission
January 20, 2009

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, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

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, subsequent to September 30, 2007, the Commission has received notices of default from the Trustee for certain debt obligations and may be unable to meet its debt service obligations as they become due. These conditions raise substantial doubt about the Commission's ability to continue as a going concern without restructuring of debt or other significant reorganization activities. Management's plans regarding those matters are described in Note X. These financial statements do not include any adjustments that might result from the outcome of this uncertainty.

As discussed in Note S, subsequent to September 30, 2007, a court ruling resulted in the effective repeal in 2009 of certain occupational taxes and business license fees, which have historically comprised significant revenues to the Commission. The Commission has indicated its intention to appeal the court ruling. It is not possible to predict at this time the ultimate outcome upon appeal.

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

To the Commissioners
Jefferson County Commission
January 20, 2009

The budgetary comparison information on pages 129 through 131 is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining and individual nonmajor fund financial statements, included in the supplementary information section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements have been subjected to the auditing procedures applied by us and the other auditors in the audit of the basic financial statements and, in our opinion, based on our audit and the report of the other auditors, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Warren, Averett, Kimbrough + Marino, LLC

Birmingham, Alabama

**JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and investments	\$ 66,022	\$ 8,449	\$ 74,471
Patient accounts receivable, net	-	6,775	6,775
Estimated third-party payor settlements	-	78	78
Accounts receivable, net	8,842	17,825	26,667
Loans receivable, net	890	-	890
Taxes receivable, net	139,219	5,359	144,578
Other receivables	-	203	203
Due from (to) other governments	348	(387)	(39)
Inventories	3,999	1,442	5,441
Prepaid expenses	36	393	429
Deferred charges - issuance costs	974	1,908	2,882
Total Current Assets	220,330	42,045	262,375
Noncurrent Assets			
Deferred charges - issuance costs	14,939	62,265	77,204
Advances due from (to) other funds	30,181	(30,181)	-
Loans receivable, net	34,409	-	34,409
Restricted assets	259,205	355,734	614,939
Assets internally designated for capital improvements or redemption of warrants	-	55,053	55,053
Assets held for sale	-	525	525
Capital assets:			
Depreciable assets, net	277,898	3,137,778	3,415,676
Nondepreciable assets	71,119	286,311	357,430
	<u>687,751</u>	<u>3,867,485</u>	<u>4,555,236</u>
	<u>\$ 908,081</u>	<u>\$ 3,909,530</u>	<u>\$ 4,817,611</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Accounts payable	\$ 28,161	\$ 16,814	\$ 44,975
Deposits payable	1,068	-	1,068
Deferred/unearned revenue	104,096	5,602	109,698
Accrued wages and benefits payable	6,790	2,405	9,195
Accrued interest payable	17,331	13,837	31,168
Retainage payable	281	2,638	2,919
Current portion of capital lease obligations	1,972	426	2,398
Estimated liability for compensated absences	7,976	3,043	11,019
Estimated claims liability	5,971	2,622	8,593
Warrants payable	47,535	7,979	55,514
Add: Unamortized premiums	2,797	190	2,987
Less: Deferred loss on refunding	(256)	(10,791)	(11,047)
	<u>50,076</u>	<u>(2,622)</u>	<u>47,454</u>
Total Current Liabilities	223,722	44,765	268,487
Noncurrent Liabilities			
Accrued arbitrage rebates	39,723	63	39,786
Capital lease obligations	6,391	993	7,384
Estimated liability for landfill closure and postclosure care costs	-	5,839	5,839
Estimated liability for compensated absences	9,595	3,735	13,330
Warrants payable	1,281,335	3,253,586	4,534,921
Add: Unamortized premiums	39,710	7,420	47,130
Less: Deferred loss on refunding	(384)	(301,512)	(301,896)
	<u>1,320,661</u>	<u>2,959,494</u>	<u>4,280,155</u>
Total Liabilities	1,600,092	3,014,889	4,614,981
Net Assets			
Investment in capital assets, net of related debt	322,172	683,774	1,005,946
Restricted for:			
Debt service or capital improvements	-	162,584	162,584
Debt service	173,503	15,512	189,015
Closure and postclosure care	-	371	371
Other purposes	1,858	1,489	3,347
Unrestricted	(1,189,544)	30,911	(1,158,633)
	<u>\$ (692,011)</u>	<u>\$ 894,641</u>	<u>\$ 202,630</u>

JEFFERSON COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)

	Expenses	Program Revenues		Net (Expenses) Revenues and Changes in Net Assets Primary Government		Total
		Charges for Services	Operating Grants and Contributions	Governmental Activities	Business-Type Activities	
Primary Government						
Governmental Activities:						
General government	\$ 175,475	\$ 29,678	\$ 16,875	\$ (128,922)	\$ -	\$ (128,922)
Public safety	77,220	1,927	2,589	(72,704)	-	(72,704)
Highways and roads	33,271	1,948	82	(31,241)	-	(31,241)
Health and welfare	1,806	-	782	(1,024)	-	(1,024)
Environmental services	1,299	-	-	(1,299)	-	(1,299)
Culture and recreation	15,287	-	-	(15,287)	-	(15,287)
Grants to school boards - proceeds from limited obligation school warrants	1,064,827	-	-	(1,064,827)	-	(1,064,827)
Education - other	1,313	-	-	(1,313)	-	(1,313)
Interest and fiscal charges	67,113	-	-	(67,113)	-	(67,113)
Total Governmental Activities	1,437,611	33,553	20,328	(1,383,730)	-	(1,383,730)
Business-Type Activities:						
Cooper Green Hospital	87,495	26,092	-	-	(61,403)	(61,403)
Economic and Industrial Development Authority	1,213	-	-	-	(1,213)	(1,213)
Nursing Home operations	14,574	10,682	-	-	(3,892)	(3,892)
Landfill operations	2,909	-	-	-	(2,909)	(2,909)
Sanitary operations	327,314	153,081	-	-	(174,233)	(174,233)
Total Business-Type Activities	433,505	189,855	-	-	(243,650)	(243,650)
Total Primary Government	\$ 1,871,116	\$ 223,408	\$ 20,328	(1,383,730)	(243,650)	(1,627,380)
General Revenues						
Taxes:						
Property taxes				99,132	5,325	104,457
Sales tax				173,815	-	173,815
Other taxes				38,906	-	38,906
Licenses and permits				75,275	-	75,275
Unrestricted investment earnings				31,171	26,323	57,494
Miscellaneous				7,152	12,741	19,893
Transfers				(52,348)	52,348	-
Total General Revenues and Transfers				373,103	96,737	469,840
Change in Net Assets				(1,010,627)	(146,913)	(1,157,540)
Net Assets - beginning of year, as previously reported				349,627	930,822	1,280,449
Prior Period Adjustments				(31,011)	110,732	79,721
Net Assets - beginning of year as restated				318,616	1,041,554	1,360,170
Net Assets - end of year				\$ (692,011)	\$ 894,641	\$ 202,630

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION
BALANCE SHEET -
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

ASSETS	General Fund	Limited Obligation School Fund	Indigent Care Fund	Nonmajor Governmental Funds	Total Governmental Funds
Cash and investments	\$ 64,388	\$ -	\$ 1,633	\$ 1	\$ 66,022
Accounts receivable, net	8,440	-	-	402	8,842
Taxes receivable, net	81,530	15,156	3,490	39,043	139,219
Due (to) from other governments	(4,662)	-	3,791	1,219	348
Inventories	3,999	-	-	-	3,999
Prepaid expenses	36	-	-	-	36
Loans receivable, net	28,758	-	-	6,541	35,299
Restricted assets	1,858	173,503	-	83,844	259,205
Advances due (to) from other funds	(41,014)	(1,576)	(960)	73,731	30,181
	<u>\$ 143,333</u>	<u>\$ 187,083</u>	<u>\$ 7,954</u>	<u>\$ 204,781</u>	<u>\$ 543,151</u>
 LIABILITIES AND FUND BALANCES					
Liabilities					
Accounts payable	\$ 19,588	\$ -	\$ -	\$ 8,573	\$ 28,161
Deposits payable	1,068	-	-	-	1,068
Deferred/unearned revenue	61,667	-	-	42,429	104,096
Accrued wages and benefits payable	6,734	-	-	56	6,790
Accrued interest payable	-	9,294	-	8,037	17,331
Retainage payable	281	-	-	-	281
Estimated liability for compensated absences	7,968	-	-	8	7,976
Estimated claims liability	5,971	-	-	-	5,971
Total Liabilities	103,277	9,294	-	59,103	171,674
 Fund Balances					
Reserved for:					
Inventories	3,999	-	-	-	3,999
Advances due from other funds	-	-	-	16,581	16,581
Petty cash	97	-	-	1	98
Mapping and reappraisal	538	-	-	-	538
E911	318	-	-	-	318
Cooper Green Hospital Foundation	-	-	1,633	-	1,633
Debt service	-	173,503	-	44,018	217,521
Encumbrances	12,800	7	-	23,603	36,410
Loans receivable	28,758	-	-	5,651	34,409
Capital projects	-	-	-	74,767	74,767
Other purposes	1,894	-	-	-	1,894
Unreserved reported in:					
General Fund	(8,348)	-	-	-	(8,348)
Special Revenue Funds	-	4,279	6,321	33,351	43,951
Capital Projects Fund	-	-	-	(52,294)	(52,294)
	<u>40,056</u>	<u>177,789</u>	<u>7,954</u>	<u>145,678</u>	<u>371,477</u>
	<u>\$ 143,333</u>	<u>\$ 187,083</u>	<u>\$ 7,954</u>	<u>\$ 204,781</u>	<u>\$ 543,151</u>

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

Total Fund Balances - Governmental Funds **\$ 371,477**

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. 349,017

Deferred loss on early retirement of debt is not reported in the funds. 640

Deferred amounts related to premiums on long-term liabilities are not reported in the funds. (42,507)

Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds. 15,913

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Long-term liabilities at year end consist of:

Warrants payable	(1,328,870)	
Capital lease obligations	(8,363)	
Accrued arbitrage rebates	(39,723)	
Estimated liability for compensated absences	(9,595)	
Total Long-Term Liabilities	(1,386,551)	(1,386,551)

Total Net Assets - Governmental Activities **\$ (692,011)**

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, 2007
(IN THOUSANDS)

	General Fund	Limited Obligation School Fund	Indigent Care Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues					
Taxes	\$ 100,687	\$ 93,172	\$ 46,135	\$ 38,421	\$ 278,415
Licenses and permits	75,275	-	-	-	75,275
Intergovernmental	45,926	-	-	7,840	53,766
Charges for services, net	32,714	-	-	839	33,553
Miscellaneous	4,520	-	1,603	256	6,379
Interest and investment	4,068	22,874	34	10,391	37,367
	<u>263,190</u>	<u>116,046</u>	<u>47,772</u>	<u>57,747</u>	<u>484,755</u>
Expenditures					
Current:					
General government	152,777	-	-	16,585	169,362
Public safety	70,850	-	-	2,639	73,489
Highway and roads	26,603	-	-	303	26,906
Health and welfare	-	-	-	1,806	1,806
Environmental services	1,275	-	-	-	1,275
Culture and recreation	15,287	-	-	-	15,287
Grants to school boards - proceeds from limited obligation school warrants	-	1,064,827	-	-	1,064,827
Education - other	730	583	-	-	1,313
Capital outlay	10,083	-	-	26,522	36,605
Debt service:					
Principal retirement	-	54,630	-	25,623	80,253
Interest and fiscal charges	213	47,085	-	21,329	68,627
	<u>277,818</u>	<u>1,167,125</u>	<u>-</u>	<u>94,807</u>	<u>1,539,750</u>
Excess (Deficiency) of Revenues over Expenditures	(14,628)	(1,051,079)	47,772	(37,060)	(1,054,995)
Other Financing Sources (Uses)					
Sale of capital assets	803	-	-	-	803
Transfers in	9,145	-	374	83,519	93,038
Transfers out	(6,980)	-	(47,514)	(90,892)	(145,386)
	<u>2,968</u>	<u>-</u>	<u>(47,140)</u>	<u>(7,373)</u>	<u>(51,545)</u>
Net Changes in Fund Balances	(11,660)	(1,051,079)	632	(44,433)	(1,106,540)
Fund Balance - beginning of year, as previously reported	42,635	1,227,736	7,078	184,888	1,462,337
Prior Period Adjustments	9,081	1,132	244	5,223	15,680
Fund Balance - beginning of year, as restated	51,716	1,228,868	7,322	190,111	1,478,017
Fund Balance - end of year	\$ 40,056	\$ 177,789	\$ 7,954	\$ 145,678	\$ 371,477

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
SEPTEMBER 30, 2007
(IN THOUSANDS)**

Net Changes in Fund Balances - Governmental Funds **\$ (1,106,540)**

Amounts reported for governmental activities in the statement of activities are different due to the following:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlays (\$36,605,000) exceeded depreciation (\$22,111,000) in the current period. 14,494

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	2,743	
Amortization of bond issuance costs	(973)	
Amortization of deferred loss on refunding	(256)	
Repayments of principal	80,253	81,767

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 long-term portion of compensated absences	5,878	
Increase in long-term portion of accrued arbitrage rebates	(6,196)	(318)

Governmental funds report proceeds from the sale of fixed assets as other financial sources. However, the statement of activities reports a gain or loss on the sale of capital assets. (30)

Change in Net Assets - Governmental Activities **\$ (1,010,627)**

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2007
(IN THOUSANDS)

ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Current Assets				
Cash and investments	\$ 285	\$ 5,728	\$ 2,436	\$ 8,449
Patient accounts receivable, net	5,278	-	1,497	6,775
Accounts receivable, net	-	17,733	92	17,825
Other receivables	176	-	27	203
Estimated third-party payor settlements	78	-	-	78
Taxes receivable, net	-	5,359	-	5,359
Due (to) from other governments	(248)	1,161	(1,300)	(387)
Inventories	914	437	91	1,442
Prepaid expenses	389	4	-	393
Deferred charges - issuance costs	-	1,899	9	1,908
Total Current Assets	6,872	32,321	2,852	42,045
Noncurrent Assets				
Restricted assets	1,489	346,598	7,647	355,734
Assets internally designated for capital improvements or redemption of warrants	-	55,053	-	55,053
Assets held for sale	-	525	-	525
Advances due (to) from other funds	7,357	1,554	(39,092)	(30,181)
Deferred charges - issuance costs	-	62,077	188	62,265
Capital assets:				
Depreciable assets, net	14,972	3,079,625	43,181	3,137,778
Nondepreciable assets	23,620	235,338	27,353	286,311
	<u>47,438</u>	<u>3,780,770</u>	<u>39,277</u>	<u>3,867,485</u>
	<u>\$ 54,310</u>	<u>\$ 3,813,091</u>	<u>\$ 42,129</u>	<u>\$ 3,909,530</u>

See notes to financial statements.

LIABILITIES AND NET ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Current Liabilities				
Accounts payable	\$ 6,202	\$ 10,107	\$ 505	\$ 16,814
Accrued wages and benefits payable	1,257	880	268	2,405
Accrued interest payable	-	13,817	20	13,837
Retainage payable	-	2,638	-	2,638
Deferred/unearned revenue	-	5,602	-	5,602
Estimated claims liability	1,312	988	322	2,622
Estimated liability for compensated absences	1,241	1,530	272	3,043
Current portion of capital lease obligations	426	-	-	426
Warrants payable	-	6,685	1,294	7,979
Add: Unamortized premiums (discounts)	-	196	(6)	190
Less: Deferred loss on refunding	-	(10,748)	(43)	(10,791)
	<u>-</u>	<u>(3,867)</u>	<u>1,245</u>	<u>(2,622)</u>
Total Current Liabilities	10,438	31,695	2,632	44,765
Noncurrent Liabilities				
Warrants payable	-	3,247,780	5,806	3,253,586
Add: Unamortized premiums (discounts)	-	7,448	(28)	7,420
Less: Deferred loss on refunding	-	(301,315)	(197)	(301,512)
	<u>-</u>	<u>2,953,913</u>	<u>5,581</u>	<u>2,959,494</u>
Capital lease obligations	993	-	-	993
Accrued arbitrage rebates	-	63	-	63
Estimated liability for landfill closure and postclosure care costs	-	-	5,839	5,839
Estimated liability for compensated absences	1,396	2,107	232	3,735
	<u>12,827</u>	<u>2,987,778</u>	<u>14,284</u>	<u>3,014,889</u>
Total Liabilities	12,827	2,987,778	14,284	3,014,889
Net Assets				
Invested in capital assets, net of related debt	37,173	602,033	44,568	683,774
Restricted for:				
Debt service or capital improvements	-	162,584	-	162,584
Debt service	-	8,236	7,276	15,512
Closure and postclosure care	-	-	371	371
Other purposes	1,489	-	-	1,489
Unrestricted	2,821	52,460	(24,370)	30,911
	<u>\$ 41,483</u>	<u>\$ 825,313</u>	<u>\$ 27,845</u>	<u>\$ 894,641</u>

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Operating Revenues				
Taxes	\$ -	\$ 5,325	\$ -	\$ 5,325
Intergovernmental	-	100	-	100
Charges for services, net	26,092	152,981	10,682	189,755
Other operating revenue	7,984	168	2,073	10,225
	<u>34,076</u>	<u>158,574</u>	<u>12,755</u>	<u>205,405</u>
Operating Expenses				
Salaries	34,602	21,208	6,598	62,408
Employee benefits and payroll taxes	6,593	6,502	1,698	14,793
Materials and supplies	12,377	1,183	1,340	14,900
Utilities	1,368	8,839	946	11,153
Outside services	10,254	15,598	3,557	29,409
Services from other hospitals	5,607	-	-	5,607
Jefferson Clinic	12,842	-	-	12,842
Office expenses	663	860	199	1,722
Depreciation	1,832	122,332	2,504	126,668
Closure and postclosure care	-	-	197	197
Miscellaneous	1,282	446	514	2,242
	<u>87,420</u>	<u>176,968</u>	<u>17,553</u>	<u>281,941</u>
Operating Loss	(53,344)	(18,394)	(4,798)	(76,536)
Nonoperating Revenues (Expenses)				
Interest expense, net	(75)	(116,076)	(1,021)	(117,172)
Interest revenue	409	25,433	481	26,323
Grant income	1,863	-	-	1,863
Amortization of warrant related costs	-	(12,452)	(122)	(12,574)
Contribution of capital assets	-	(21,818)	-	(21,818)
Gain on sale or retirement of capital assets	-	152	501	653
	<u>2,197</u>	<u>(124,761)</u>	<u>(161)</u>	<u>(122,725)</u>
Operating Transfers				
Transfers in	49,348	2	4,200	53,550
Transfers out	(1,172)	(30)	-	(1,202)
	<u>48,176</u>	<u>(28)</u>	<u>4,200</u>	<u>52,348</u>
Change in Net Assets	(2,971)	(143,183)	(759)	(146,913)
Net Assets - beginning of year, as previously reported	44,881	851,627	34,314	930,822
Prior Period Adjustments	(427)	116,869	(5,710)	110,732
Net Assets - beginning of year, as restated	<u>44,454</u>	<u>968,496</u>	<u>28,604</u>	<u>1,041,554</u>
Net Assets - end of year	<u>\$ 41,483</u>	<u>\$ 825,313</u>	<u>\$ 27,845</u>	<u>\$ 894,641</u>

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)**

	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Cash Flows from Operating Activities				
Cash received from services	\$ 24,892	\$ 152,418	\$ 11,778	\$ 189,088
Cash payments to employees	(41,116)	(27,404)	(8,290)	(76,810)
Cash payments for goods and services	(40,497)	(28,415)	(5,925)	(74,837)
Other receipts and payments, net	2,182	(8,511)	1,162	(5,167)
Net Cash Provided (Used) by Operating Activities	(54,539)	88,088	(1,275)	32,274
Cash Flows from Noncapital Financing Activities				
Grant income	1,863	-	-	1,863
Operating transfers out	(1,172)	(30)	-	(1,202)
Operating transfers in	49,348	2	4,200	53,550
Net Cash Provided (Used) by Noncapital Financing Activities	50,039	(28)	4,200	54,211
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(16,267)	(83,456)	(4,071)	(103,794)
Repayment of capital lease obligations	(369)	-	-	(369)
Sale of capital assets	-	2,459	746	3,205
Interest paid	(75)	(118,885)	(1,012)	(119,972)
Principal payments on warrants	-	(6,430)	(1,210)	(7,640)
Retainage received	-	103	-	103
Net Cash Used by Capital and Related Financing Activities	(16,711)	(206,209)	(5,547)	(228,467)
Cash Flows from Investing Activities				
Interest received	409	25,433	481	26,323
Change in investments held under self-insurance trust agreement	(77)	-	-	(77)
Arbitrage rebate payments	-	(3,316)	-	(3,316)
Miscellaneous	1	(3)	1,239	1,237
Net Cash Provided by Investing Activities	333	22,114	1,720	24,167
Decrease in Cash and Investments	(20,878)	(96,035)	(902)	(117,815)
Cash and Investments - beginning of year	21,163	503,414	3,709	528,286
Cash and Investments - end of year	\$ 285	\$ 407,379	\$ 2,807	\$ 410,471
Displayed As				
Cash and investments	\$ 285	\$ 5,728	\$ 2,436	\$ 8,449
Restricted assets - noncurrent cash	-	346,598	371	346,969
Assets internally designated for capital improvements or redemption of warrants - noncurrent cash	-	55,053	-	55,053
	\$ 285	\$ 407,379	\$ 2,807	\$ 410,471

**JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)
(Continued)**

	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Enterprise Funds	Total
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	\$ (53,344)	\$ (18,394)	\$ (4,798)	\$ (76,536)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	1,832	122,332	2,504	126,668
Provision for bad debts	2,855	-	654	3,509
Change in patient accounts receivable	(4,579)	-	(667)	(5,246)
Change in accounts receivable	-	(547)	190	(357)
Change in other receivables	560	-	30	590
Change in estimated third-party payor settlements	525	-	-	525
Change in due from other governments	-	(16)	-	(16)
Change in advances due (to) from other funds	(6,362)	(14,123)	6	(20,479)
Change in taxes receivable, net	-	(366)	-	(366)
Change in inventories	295	(36)	(51)	208
Change in prepaid expenses	124	(1)	-	123
Change in accounts payable	3,028	(1,451)	392	1,969
Change in deferred/unearned revenue	-	385	-	385
Change in accrued wages and benefits payable	66	(7)	9	68
Change in estimated liability for compensated absences	14	(7)	(25)	(18)
Change in estimated claims liability	447	319	-	766
Change in estimated liability for landfill closure and postclosure care costs	-	-	481	481
	<u>(1,195)</u>	<u>106,482</u>	<u>3,523</u>	<u>108,810</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (54,539)</u>	<u>\$ 88,088</u>	<u>\$ (1,275)</u>	<u>\$ 32,274</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for:				
Interest	<u>\$ -</u>	<u>\$ (118,885)</u>	<u>\$ 1,021</u>	<u>\$ (117,864)</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain on sale or retirement of capital assets	<u>\$ -</u>	<u>\$ 152</u>	<u>\$ 501</u>	<u>\$ 653</u>
Contribution of capital assets	<u>\$ -</u>	<u>\$ (21,818)</u>	<u>\$ -</u>	<u>\$ (21,818)</u>
Property and equipment financed by capital lease obligation	<u>\$ 510</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 510</u>

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS -
FIDUCIARY FUNDS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

ASSETS	Agency Funds
Cash and investments	\$ 2,807
Loans receivable, net	102
	\$ 2,909
LIABILITIES	
Accounts payable and accrued expenses	\$ 81
Due to external organizations	1,950
Due to other governments	878
	\$ 2,909

See notes to financial statements.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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. 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 820, Birmingham, Alabama.

Government-Wide and Fund Financial Statements

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Government-Wide Financial Statements

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

The statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. The Commission does not allocate indirect expenses to the various functions. Program revenues include (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.

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.

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

- *Limited Obligation School Fund* - This fund is used to account for the sales tax collected for the payment of principal and interest on the Limited Obligation School Warrants.
- *Indigent Care Fund* - This fund is used to account for the expenditure of beverage and sales taxes designated for indigent residents of Jefferson County (the County).

Other nonmajor governmental funds are as follows:

- *Bridge and Public Building Fund* - This fund is used to account for the expenditure of special County property taxes for building and maintaining public buildings, roads and bridges.
- *Community Development Fund* - This fund is used to account for the expenditure of federal block grant funds.
- *Capital Improvements Fund* - This fund is used to account for the financial resources used in the improvement of major capital facilities.
- *Public Building Authority* - This fund is used to account for the operations of the Jefferson County Public Building Authority. This authority was incorporated in 1998 for the general purpose of providing public facilities for the use of the Commission and its agencies.
- *Road Construction Fund* - This fund is used to account for the financial resources expended in the construction of roads.
- *Home Grant Fund* - This fund is used to account for the expenditure of funds received for disaster assistance programs.
- *Emergency Management Fund* - This fund is used to account for the expenditure of funds received for disaster assistance programs.
- *Debt Service Fund* - This fund is used to account for the accumulation of resources for and the payment of the Commission's principal and interest on governmental bonds.

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. Operating revenues are derived from net patient charges and reimbursements from third parties, including Medicare and Medicaid.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

- *Sanitary Operations Fund* - This fund is used to account for the operations of the Commission's sanitary sewer systems. Revenues are generated primarily through user charges, impact fees and designated property and ad valorem taxes.

Other nonmajor enterprise funds are as follows:

- *Landfill Operations Fund* - This fund is used to account for the operations of the Commission's landfill systems. Revenues are generated primarily through user charges and lease payments from a third-party lessee.
- *Jefferson Rehabilitation and Health Center Fund* - This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.
- *Jefferson County 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. (This fund was excluded from the prior year's audited financial statements. Its beginning fund balance at October 1, 2006, has been included with the other nonmajor enterprise funds on the statement of revenues, expenses and changes in net assets.)

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

Agency Funds

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

The Commission reports the following fund types:

Proprietary Fund Type

- *Enterprise Funds* - These funds report the activities for which fees are charged to external users for goods or services. This fund type is also used when the activity is financed with debt that is secured by a pledge of the net revenues from the fees.

Fiduciary Fund Type

- *Agency Funds* - These funds are used to report assets held by the Commission in a purely custodial capacity. The Commission collects these assets and transfers them to the proper individual, private organizations, or other government.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund and fiduciary fund financial statements. Revenues are recorded when earned, and expenses are recorded 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 levied and due.

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

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.

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.

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

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.

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

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.

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

	Enterprise Funds
Patient receivables	\$ 34,841,000
Allowance accounts	<u>28,066,000</u>
Net patient receivables	<u><u>\$ 6,775,000</u></u>

Allowances for uncollectible accounts on accounts receivable totaled \$10,167,000 at September 30, 2007.

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

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 \$556,418 at September 30, 2007.

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, 2007, the balance of loans receivable (net of an allowance of \$133,669) for the City of Birmingham totaled \$102,000.

Allowances for uncollectible accounts on other loans receivable totaled \$5,563,000 at September 30, 2007.

Millage rates for property taxes are levied at the first regular meeting of the Commission in February of each year. Property taxes are assessed for property as of October 1 of the preceding year based on the millage rates established by the 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 the lower of cost or market, using the first-in, first-out (FIFO) method. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased.

Prepaid Items

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Restricted Assets

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

Capital Assets

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

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

Item	Capitalization Threshold	Estimated Useful Life
Buildings	\$ 100,000	40 years
Equipment and furniture	1,000	5-10 years
Roads	250,000	15 years
Bridges	250,000	40 years
Collection sewer system assets	250,000	25-40 years
Treatment plant sewer system assets	250,000	40 years
Landfills and improvements	100,000	25 years

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

The Commission capitalizes interest cost incurred on funds used to construct property, equipment and infrastructure assets. Interest capitalization ceases when the construction project is substantially complete. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In accordance with authoritative accounting guidance, interest is not capitalized for construction projects of governmental funds. Net interest capitalized during fiscal year 2007 amounted to \$12,596,000.

Capital assets are reviewed for impairment in accordance with the methodology prescribed in Governmental Accounting Standards Board (GASB) Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The Commission determined that no decline in service utility for its capital assets has occurred and, accordingly, no impairment of its capital assets exists at September 30, 2007.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Estimated Claims Liabilities

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

Long-Term Obligations

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Derivative Instruments/Interest Rate Swap Agreements

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

Compensated Absences

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

Vacation Leave

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

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

Sick Leave

Sick leave shall be earned at the rate of one day for each month of service. Sick leave earned but not used during the calendar year may be accumulated with no maximum limit. A permanent employee who resigns or retires from the Commission in good standing after five years of service may, subject to the approval of the appointing authority, receive pay for 50 percent of the accumulated sick leave not to exceed 30 days.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Compensatory Leave

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

Maximum limitations of accumulated compensatory time are as follows:

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

Any employee's accrual of overtime in excess of the maximum limitation shall, within the following pay period, be disposed of by either (a) payment at the current hourly pay step 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, 2007, the liability for accrued vacation and compensatory leave included in the government-wide statement of net assets is approximately \$15,242,000, of which \$11,058,000 is reported in the government activities, and \$4,184,000 is reported in the business-type activities. Of this amount, an estimated \$10,615,000 is payable within a year.

As of September 30, 2007, the liability for accrued sick leave included in the government-wide statement of net assets is approximately \$9,107,000. Of this amount, \$6,513,000 is reported in the government activities, and \$2,594,000 is reported in the business-type activities. Due and payable within one year of September 30, 2007, is approximately \$404,000.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Net Assets/Fund Equity

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

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

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

NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY

Budgets

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

**NOTE B - STEWARDSHIP, COMPLIANCE, AND ACCOUNTABILITY -
Continued**

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

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

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

Deficit Fund Balances/Net Assets of Individual Funds

At September 30, 2007, the following funds had a deficit fund balance:

	(In Thousands) Deficit
Community Development Fund	\$ 1,775
Capital Improvements Fund	26,718
Road Construction Fund	5,153
Emergency Management Fund	123

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE C - RESTATEMENTS

The beginning balance of cash and investments for the statement of cash flows was restated to close the Parking Deck Fund into the General Fund. 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, 2006, as previously reported	\$ 349,627	\$ 930,822	\$ 1,280,449
Unrecorded expenses	(3,434)	(66)	(3,500)
Capitalized interest during construction	-	116,935	116,935
Adjust debt-related accounts	(1,444)	-	(1,444)
Ad valorem deferred revenue	(3,385)	-	(3,385)
Grant-related accruals not previously recorded	(4,180)	-	(4,180)
Record loans receivable not previously recorded	5,319	-	5,319
Adjust sales tax	9,269	-	9,269
Adjust various receivables	6,920	(1,668)	5,252
Improperly capitalized construction in progress	(36,579)	(1,010)	(37,589)
Record completed projects	-	(427)	(427)
Record additional depreciation	-	(603)	(603)
Move construction in progress to correct fund	(12,067)	-	(12,067)
Building depreciated over improper life	4,951	-	4,951
Close Parking Deck Fund into General Fund	477	(477)	-
Adjust closure and postclosure care costs	-	(1,914)	(1,914)
Adjust insurance accruals	8,043	(38)	8,005
Correct interfund receivables and payables	(4,901)	-	(4,901)
Net assets, September 30, 2006, as restated	<u>\$ 318,616</u>	<u>\$ 1,041,554</u>	<u>\$ 1,360,170</u>

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE C - RESTATEMENTS - Continued

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

	In Thousands				
	General Fund	Limited Obligation School Fund	Indigent Care Fund	Other Governmental Funds	Total Governmental Funds
Fund balance, September 30, 2006, as previously reported	\$ 42,635	\$ 1,227,736	\$ 7,078	\$ 184,888	\$ 1,462,337
Ad valorem deferred revenue	(1,614)	-	-	(1,771)	(3,385)
Grant-related accruals not previously recorded	-	-	-	(4,180)	(4,180)
Record loans receivable not previously recorded	1,543	-	-	3,776	5,319
Adjust sales tax	9,025	-	244	-	9,269
Adjust various receivables	9,640	-	-	(2,720)	6,920
Combine other Nonmajor Governmental Funds into General Fund	(14,110)	-	-	14,110	-
Combine Internal Service Funds with General Fund	(1,748)	-	-	-	(1,748)
Combine Parking Deck Fund with General Fund	477	-	-	-	477
Adjust insurance accruals	8,043	-	-	-	8,043
Adjust interest accruals	-	1,132	-	(2,123)	(991)
Record prior year unaccrued expenses	(2,520)	-	-	(914)	(3,434)
Record transfer of capital expenditures	195	-	-	4,096	4,291
Correct interfund receivables and payables	150	-	-	(5,051)	(4,901)
	<u>\$ 51,716</u>	<u>\$ 1,228,868</u>	<u>\$ 7,322</u>	<u>\$ 190,111</u>	<u>\$ 1,478,017</u>
Fund balance, September 30, 2006, as restated					

Effective September 30, 2006, the Commission elected to combine the activities of the Road Fund, Senior Citizens' Activities Fund, and CDGB-EDA Revolving Loan Fund with the General Fund. The accounting for this election occurred during fiscal year 2007.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE C - RESTATEMENTS - Continued

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

	(In Thousands)			
	Cooper Green Hospital Fund	Sanitary Operations Fund	Other Proprietary Funds	Total Proprietary Funds
Net assets, September 30, 2006, as previously reported	\$ 44,881	\$ 851,627	\$ 34,314	\$ 930,822
Unrecorded expenses	-	(66)	-	(66)
Capitalized interest during construction	-	116,935	-	116,935
Assets improperly depreciated or capitalized	-	-	(1,010)	(1,010)
Record completed projects	(427)	-	-	(427)
Record additional depreciation	-	-	(603)	(603)
Adjust insurance accruals	-	-	(38)	(38)
Combine Parking Deck Fund with General Fund	-	-	(477)	(477)
Adjust closure and postclosure care costs	-	-	(1,914)	(1,914)
Adjust various receivables	-	-	(1,668)	(1,668)
Net assets, September 30, 2006, as restated	<u>\$ 44,454</u>	<u>\$ 968,496</u>	<u>\$ 28,604</u>	<u>\$ 1,041,554</u>

The Sanitary Operations Fund began significant rehabilitation of its sewer infrastructure in fiscal year 1997. The Sanitary Operations Fund financed this project mainly through tax-exempt borrowings from which interest cost incurred must be capitalized and amortized over the useful life of the associated asset. The above restatement is for qualifying construction interest from 1997 through 2006, net of accumulated amortization for the same period.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE D - DEPOSITS AND INVESTMENTS

Deposits

Custodial Credit Risk

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

Investments

As of September 30, 2007, the components of cash and investments and restricted assets are:

	(In Thousands)		
	Governmental Activities	Business- Type Activities	Total
Petty cash	\$ 100	\$ 6	\$ 106
Equity in pooled investments	1,634	6,387	8,021
Cash and investments	64,288	2,056	66,344
Assets internally designated for capital improvements or redemption of warrants	-	55,053	55,053
Restricted assets held for:			
Closure and postclosure care	-	371	371
Retainage	281	2,638	2,919
Debt service	110,030	15,512	125,542
Capital improvements	147,317	173,140	320,457
Debt service or capital improvements	-	162,584	162,584
Other purposes	1,577	1,489	3,066
	259,205	355,734	614,939
Total restricted assets	259,205	355,734	614,939
Total cash and investments	\$ 325,227	\$ 419,236	\$ 744,463

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2007, the Commission had the following deposits and investments:

	(In Thousands)		
	Governmental Activities	Business- Type Activities	Total
Cash and cash equivalents	\$ 8,110	\$ 9,839	\$ 17,949
Investments:			
U.S. Government obligations	90,354	55,615	145,969
Repurchase agreements	218,230	167,127	385,357
Collateralized mortgage obligations	8,252	8,084	16,336
Fixed income money market mutual funds	-	175,933	175,933
Total investments	<u>316,836</u>	<u>406,759</u>	<u>723,595</u>
	324,946	416,598	741,544
Restricted assets held for retainage	<u>281</u>	<u>2,638</u>	<u>2,919</u>
	<u>\$ 325,227</u>	<u>\$ 419,236</u>	<u>\$ 744,463</u>

The Commission has entered into contracts for construction of various facilities within Jefferson County. Cash deposits were provided by some contractors that were used to purchase certificates of deposits and U. S. Government securities to be held by designated financial institutions in the name of the contractors and the Commission in lieu of retainage. These securities, totaling \$2,919,000, 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2007, the Commission's investments had the following maturities (in thousands):

	Fair Value	Investment Maturities (in Years)			
		Less than 1	1-5	6-10	Thereafter
U.S. Government obligations	\$ 145,969	\$ 120,998	\$ 15,890	\$ 9,081	\$ -
Repurchase agreements	385,357	331,262	54,095	-	-
Collateralized mortgage obligations	16,336	-	-	3,430	12,906
Fixed income money market mutual funds	175,933	175,933	-	-	-
	<u>\$ 723,595</u>	<u>\$ 628,193</u>	<u>\$ 69,985</u>	<u>\$ 12,511</u>	<u>\$ 12,906</u>

Interest Rate Risk

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

Investment Risk

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

Subsequent to year end, the financial markets have experienced significant levels of volatility that may cause a decline in the value of investments held at September 30, 2007. While such declines may be temporary, the investment values are subject to market fluctuations, and the timing of any such recovery is unknown at the present time.

Concentration of Credit Risk

The Commission's investment policy generally does not allow for an investment in any one issuer that is in excess of five percent of the total investments. However, the Commission held three repurchase agreements, totaling \$378,170,000 at September 30, 2007, each with an investment balance greater than five percent of total investments.

On October 16, 2008, one repurchase agreement totaling \$54,000,000 was terminated. See Note V for discussion of the Notice of Issuer Event of Default on Repurchase Agreement.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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 and Moody's Investors Service, Inc. As of September 30, 2007, the Commission's investments in U.S. Government obligations were rated 'Aaa' by Standard & Poor's. No ratings were available on the other investments.

Of the Commission's \$723,595,000 in investments at September 30, 2007, \$414,116,000 of the underlying securities are held by the investment's counterparty, not in the name of the Commission.

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2007. was as follows:

Governmental Activities	(In Thousands)				Balance at September 30, 2007
	Balance at October 1, 2006 Restated	Additions	Disposals	Transfers/ Reclassifications	
Nondepreciable capital assets:					
Land	\$ 16,064	\$ 2,383	\$ -	\$ -	\$ 18,447
Construction in progress (CIP)	13,816	41,445	(18,080)	15,491	52,672
General infrastructure - CIP	17,244	2,514	-	(19,758)	-
	<u>47,124</u>	<u>46,342</u>	<u>(18,080)</u>	<u>(4,267)</u>	<u>71,119</u>
Depreciable capital assets:					
Buildings	339,804	-	(2)	10	339,812
Improvements other than land/buildings	29,813	2,559	(14)	104,770	137,128
Maintenance equipment	5,933	67	(1,328)	7,527	12,199
Motor vehicle (nonfleet)	18,834	982	(2,945)	118	16,989
Motor vehicle (fleet)	39,357	3,839	(5,239)	161	38,118
Equipment under capital lease	13,847	-	-	-	13,847
Miscellaneous equipment	54,923	1,258	(1,545)	(3,244)	51,392
Office furniture and fixtures	4,825	122	(166)	(309)	4,472
General infrastructure	104,766	-	-	(104,766)	-
	<u>612,102</u>	<u>8,827</u>	<u>(11,239)</u>	<u>4,267</u>	<u>613,957</u>
Less accumulated depreciation for:					
Buildings	(170,954)	(4,506)	-	(432)	(175,892)
Improvements other than land/buildings	(11,069)	(3,236)	14	(43,682)	(57,973)
Maintenance equipment	(5,025)	(400)	1,296	(7,059)	(11,188)
Motor vehicle (nonfleet)	(15,080)	(484)	2,367	(57)	(13,254)
Motor vehicle (fleet)	(32,063)	(2,592)	4,406	219	(30,030)
Equipment under capital lease	(4,451)	(1,978)	-	-	(6,429)
Miscellaneous equipment	(41,353)	(7,992)	2,961	8,449	(37,935)
Office furniture and fixtures	(3,566)	(259)	132	335	(3,358)
General infrastructure	(41,563)	(664)	-	42,227	-
	<u>(325,124)</u>	<u>(22,111)</u>	<u>11,176</u>	<u>-</u>	<u>(336,059)</u>
Total depreciable capital assets, net	<u>286,978</u>	<u>(13,284)</u>	<u>(63)</u>	<u>4,267</u>	<u>277,898</u>
Total capital assets, net	<u>\$ 334,102</u>	<u>\$ 33,058</u>	<u>\$ (18,143)</u>	<u>\$ -</u>	<u>\$ 349,017</u>

Included in the disposals column for construction in progress are transfers to proprietary funds of \$18,077,000.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE E - CAPITAL ASSETS - Continued

Business-Type Activities	(In Thousands)				Balance at September 30, 2007
	Balance at October 1, 2006 Restated	Additions	Disposals	Transfers/ Reclassifications	
Nondepreciable capital assets:					
Land	\$ 67,428	\$ 1,901	\$ (21,818)	\$ 3,473	\$ 50,984
Construction in progress	613,251	82,812	-	(460,736)	235,327
	<u>680,679</u>	<u>84,713</u>	<u>(21,818)</u>	<u>(457,263)</u>	<u>286,311</u>
Depreciable capital assets:					
Buildings	787,904	2,557	(8)	295,606	1,086,059
Improvements other than land/buildings	2,963,861	11,690	(2,419)	161,179	3,134,311
Maintenance equipment	7,221	243	(3)	72	7,533
Motor vehicle (nonfleet)	6,924	7	(1,899)	-	5,032
Motor vehicle (fleet)	11,352	1,144	(1,031)	-	11,465
Equipment under capital lease	1,645	510	-	-	2,155
Miscellaneous equipment	14,571	2,040	(121)	543	17,033
Office furniture and fixtures	10,166	7	(3)	(137)	10,033
	<u>3,803,644</u>	<u>18,198</u>	<u>(5,484)</u>	<u>457,263</u>	<u>4,273,621</u>
Less accumulated depreciation for:					
Buildings	(203,037)	(8,670)	8	(13)	(211,712)
Improvements other than land/buildings	(763,923)	(115,620)	98	13	(879,432)
Maintenance equipment	(6,934)	(120)	37	8	(7,009)
Motor vehicle (nonfleet)	(5,402)	(297)	1,652	-	(4,047)
Motor vehicle (fleet)	(9,946)	(565)	1,025	-	(9,486)
Equipment under capital lease	(368)	(207)	-	-	(575)
Miscellaneous equipment	(12,609)	(1,113)	110	(164)	(13,776)
Office furniture and fixtures	(9,888)	(76)	2	156	(9,806)
	<u>(1,012,107)</u>	<u>(126,668)</u>	<u>2,932</u>	<u>-</u>	<u>(1,135,843)</u>
Total depreciable capital assets, net	<u>2,791,537</u>	<u>(108,470)</u>	<u>(2,552)</u>	<u>457,263</u>	<u>3,137,778</u>
Total capital assets, net	<u>\$ 3,472,216</u>	<u>\$ (23,757)</u>	<u>\$ (24,370)</u>	<u>\$ -</u>	<u>\$ 3,424,089</u>

The Sanitary Operations Fund was required by the Environmental Protection Agency to contribute certain land surrounding the Cahaba River to the Freshwater Land Trust resulting in a disposal of \$21,818,000 in the current year.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE E - CAPITAL ASSETS - Continued

Further, the construction and rehabilitation of several treatment plants and sewer system infrastructure was completed during the year. The net book value of landfill operations capital assets leased to a third party at September 30, 2007, is \$40,742,740. See Note H for discussion of operating lease.

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

	(In Thousands)
Governmental activities:	
General government	\$ 11,992
Public safety	3,730
Highways and roads	6,365
Health and welfare	24
	24
Total depreciation expense - governmental activities	\$ 22,111
Business-type activities:	
Cooper Green Hospital	\$ 1,832
Nursing Home	313
Landfill operations	1,893
Sanitary operations	122,332
Development Authority	298
	298
Total depreciation expense - business-type activities	\$ 126,668

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, 2007, 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	\$ -	\$ 4,730	\$ 4,730
Property taxes	103,354	-	103,354
Contractual obligation	-	1,614	1,614
	-	1,614	1,614
Total deferred revenue	\$ 103,354	\$ 6,344	\$ 109,698

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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, 2007, amounts paid by the Commission totaled \$1,419,000 for governmental activities and \$943,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2007, are as follows:

Year Ending September 30,	(In Thousands)		
	Facilities	Equipment	Total
2008	\$ 800	\$ 792	\$ 1,592
2009	793	704	1,497
2010	763	569	1,332
2011	768	368	1,136
2012	883	47	930
2013-2017	2,458	-	2,458
2018-2022	1,836	-	1,836
	\$ 8,301	\$ 2,480	\$ 10,781

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. The lease agreement qualifies as a capital lease for accounting purposes and has been recorded in the Capital Improvements Fund at the present value of the minimum lease payments as of the inception date of the lease. Under the terms of the lease, the Commission is required to make seven equal annual payments of \$2,298,458. Amortization of the capital lease is included in depreciation expense for governmental activities.

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE G - LEASE OBLIGATIONS - Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2007, are as follows:

Year Ending September 30,	(In Thousands)	
	Governmental Activities	Business-Type Activities
2008	\$ 2,298	\$ 491
2009	2,298	491
2010	2,298	404
2011	2,298	117
2012	2	47
Total minimum lease payments	9,194	1,550
Less amount representing interest	831	131
Present value of minimum lease payments	\$ 8.363	\$ 1.419

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, 2007:

2008	\$ 918,000
2009	918,000
2010	918,000
2011	918,000
2012	918,000
Thereafter	48,883.500
	\$ 53,473.500

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE H - LANDFILL LEASE - Continued

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 2007 of \$1,124,000 is presented as other operating revenue in the statement of revenues, expenses and changes in fund net assets.

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

State and federal laws and regulations require that the Commission place a final cover on its landfills when closed and perform certain maintenance and monitoring functions at the landfill site for 30 years after closure. In addition to operating expenses related to current activities of the landfills, an expense provision and related liability are being recognized based on the future closure and postclosure care costs that will be incurred near or after the date the landfills no longer accept waste. The recognition of these landfill closure and postclosure care costs is based on the amount of the landfills' capacity used during the year.

The recorded liability for landfill closure and postclosure care costs is \$5,839,000 as of September 30, 2007. This estimate was based on 60-percent usage (filled) of the Jefferson County Landfill Number 1, 33-percent usage (filled) of the Jefferson County Landfill Number 1 Inert Cell, 57-percent usage (filled) of the Jefferson County Landfill Number 2, and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills, which were both closed October 1997. The total estimated current cost of closure and postclosure care remaining to be recognized and the estimated remaining useful life of the landfill at September 30, 2007, are \$4,715,000 and nine 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 \$371,000 as of September 30, 2007, and are presented as noncurrent restricted assets on the accompanying statement of net assets under business-type activities.

The estimated total current cost of the landfill closure and postclosure care is based on the amount that would be paid if all equipment, facilities, and services required to close, monitor, and maintain the landfills were acquired as of September 30, 2007. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology, or changes in landfill laws and regulations.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE

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

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

BUSINESS-TYPE ACTIVITIES

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

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

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

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 Corporation (Ambac) or MBIA Corporation, Inc. (MBIA).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

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 (the Trust Indenture) dated December 1, 2004, between Jefferson County, Alabama and SouthTrust Bank, 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 Jefferson County to make certain certifications regarding the warrants on or before October 20, 2006. No grants were made to any school board until the warrants were no longer subject to extraordinary mandatory redemption, which occurred during fiscal 2007. Grants in the amount of \$1,064,827,000 were expended in 2007 to the school boards and recorded as expenditures in the accompanying statement of revenues, expenditures and changes in fund balances - governmental funds.

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 COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Warrants payable consist of the following at September 30, 2007 (in thousands):

Business-Type Activities:

Sewer Revenue Refunding Warrants, Series 1997-A, with interest paid semiannually at fixed rates ranging from 5.00% to 5.625% (5.375% to 5.625% at September 30, 2007) 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	14.570
Sewer Revenue Capital Improvement Warrants, Series 2002-A, with interest paid monthly at variable interest rates (3.93% at September 30, 2007), maturing February 1, 2042	110.000
Sewer Revenue Refunding Warrants, Series 2002-C, with interest paid monthly at variable interest rates or 35-day auction rates (average rate of 3.85% at September 30, 2007) and annual principal payments through year 2040	836.800
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	28,275

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Sewer Revenue Refunding Warrants, Series 2003-B, with interest paid monthly at a variable interest rate or 35-day auction rates (average rate of 3.82% at September 30, 2007) on \$1,035,800 and paid semiannually at a fixed rate of 5.25% on \$119,965 with annual principal payments from year 2009 through year 2042	1,155,765
Sewer Revenue Refunding Warrants, Series 2003-C, with interest paid monthly at 35-day auction rates (average of 3.97% at September 30, 2007) and annual principal payments from year 2009 through year 2042	<u>1,052,025</u>
	3,254,465
 <i>Governmental Activities:</i>	
General Obligation Warrants, Series 2001-A, with interest paid semiannually at fixed rates ranging from 3.15% to 5.00% and annual principal payments from year 2002 to 2011	36,800
General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates, computed using the Weekly Rate Mode (4.0% at September 30, 2007) and annual principal payments from year 2012 to 2021	120,000
General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, with interest paid semiannually at fixed rates ranging from 2.50% to 5.25% and annual principal payments from year 2004 to 2021	62,125
General Obligation Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 3.4% to 5.0% and annual principal payments from year 2011 to 2024	51,020

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

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 year 2007 to 2025	629,080
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) (ranging from 3.75% to 3.90% at September 30, 2007) and annual principal payments from year 2007 to 2026	343,100
Lease Revenue Warrants, Series 2006, with interest paid semiannually at fixed rates ranging from 4.25% to 5.125% and annual principal payments from year 2008 to 2026	<u>86,745</u>
	<u>1,328,870</u>
	4,583,335
Add unamortized net premiums (discounts) (net of current portion of \$2,993)	47,158
Less deferred loss from early extinguishment (net of current portion of \$11,004)	301,699
Less amounts due within one year	<u>54,220</u>
Warrants payable - noncurrent, net	<u><u>\$ 4,274,574</u></u>

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Sewer Capital Improvement and Refunding Warrants

The following is a summary of the warrants issued under the Indenture, including those outstanding as of September 30, 2007.

Series 1997-A Warrants

The Commission issued \$211,040 of tax-exempt Sewer Revenue Refunding Warrants, Series 1997-A under the Indenture, dated February 1, 1997. These warrants were issued to refund a portion of the Commission's outstanding sewer revenue indebtedness, other than the Sewer Revenue Warrant (SRF Warrant) referred to below.

Following the issuance of the Series 1997 Warrants, the Commission had no outstanding sewer revenue indebtedness other than the Series 1997-A and 1997-C Warrants (see below) and Series 1997-B Warrants that have been retired. Funds were deposited to escrow for the ultimate repayment of the Series 1992 and 1993 Warrants. The Series 1995-A Warrants were purchased and retired with this issue. The Series 1997-A Warrants have an outstanding balance of \$57,030 at September 30, 2007.

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Series 1997-D and Series 1999-A Warrants

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

Series 2001-A Warrants

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

The warrants were partially refunded by the Series 2002-C Warrants, Series 2003-B Warrants and Series 2003-C Warrants as described below. The Series 2001-A Warrants have an outstanding balance of \$14,570 at September 30, 2007. 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 March 1, 2002, between Jefferson County, Alabama and The Bank of New York, 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 \$110,000 at September 30, 2007. The Series 2002-C Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

A standby warrant purchase agreement with JPMorgan Chase Bank (Liquidity Provider), as discussed further below, provides for the purchase of Series 2002-A Warrants tendered for purchase in accordance with the terms of the agreement.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Series 2002-B Warrants

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

Series 2002-C Warrants

The Commission issued \$839,500 of tax-exempt Sewer Revenue Refunding Warrants, Series 2002-C as evidenced by the Sixth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York, dated 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).

The Series 2002-C Warrants include \$442,400 of variable rate demand warrants and \$397,100 of auction rate warrants. The warrants are insured by XL Capital pursuant to a bond insurance policy issued simultaneously with the warrants.

Standby warrant purchase agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2002-C Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreement.

Of the proceeds, \$825,919 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately \$112,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2002-C Warrants have an outstanding balance of \$836,800 at September 30, 2007.

Series 2002-D Warrants

The Commission issued \$475,000 of Sewer Revenue Capital Improvement Warrants, Series 2002-D dated 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. 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Series 2003-A Warrants

The Commission issued \$41,820 of taxable Sewer Revenue Refunding Warrants, Series 2003-A as evidenced by the Eighth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York dated January 1, 2003. These warrants were issued for the purpose of refunding \$41,820 (remaining balance) of the Series 1997-C Warrants. The Series 1997-C Warrants were canceled, and due to the warrants being issued to the State of Alabama (Alabama Water Pollution Control Authority) with no issuance costs involved, there was no loss on early retirement recorded. The Series 2003-A Warrants have an outstanding balance of \$28,275 at September 30, 2007.

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 dated April 1, 2003. These warrants were issued for the purpose of refunding \$922,635 of outstanding warrants (\$128,770 of the 1997-A Warrants, \$71,980 of the Series 1997-D Warrants, \$373,320 of the Series 1999-A Warrants, \$113,865 of the Series 2001-A Warrants, \$206,920 of the Series 2002-B Warrants, and \$27,780 of the Series 2002-D Warrants).

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

Standby warrant purchase agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2003-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreements. The Series 2003-B Warrants have an outstanding balance of \$1,155,765 at September 30, 2007.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Series 2003-C Warrants

The Commission issued \$1,052,025 of tax-exempt Sewer Revenue Refunding Warrants, Series 2003-C as evidenced by the Tenth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York 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 FSA and FGIC under bond insurance policies issued simultaneously with the warrants.

Of the proceeds, \$71,304 was placed in escrow for future debt service requirements, and \$956,534 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately \$124,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2003-C Warrants have an outstanding balance of \$1,052,025 at September 30, 2007.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants

The following is a summary of the warrants issued, including those outstanding as of September 30, 2007.

General Obligation Warrants, Series 2001-A

The Commission issued \$82,000 of tax-exempt General Obligation Warrants, Series 2001-A (GO Series 2001-A Warrants) dated April 1, 2001. These warrants were issued for the purpose of current refunding of the Commission's General Obligation Warrants, Series 2000, for the purpose of acquiring, constructing and equipping various capital improvements to Jefferson County's facilities and for the related warrant issuance costs. The warrants are insured by a bond insurance policy issued by Ambac. The GO Series 2001-A Warrants have an outstanding balance of \$36,800 at September 30, 2007.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

General Obligation Warrants, Series 2001-B

On July 19, 2001, the Commission issued \$120,000 of tax-exempt General Obligation Warrants, Series 2001-B (GO Series 2001-B Warrants). These warrants were issued for the purpose of refunding the County's General Obligation Warrants, Series 1996 and Series 1999 and related issuance costs. The outstanding balance at September 30, 2007, is \$120,000.

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

Subsequent to year end and 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 on or around March 2008.

Pursuant to its agreements with the GO Liquidity Providers, the Commission must redeem the GO Series 2001-B Warrants on an accelerated schedule of six equal semiannual payments beginning six months from the date of purchase. As of October 31, 2008, the Commission had paid \$10,000 of the outstanding obligations to the GO Liquidity Providers. See Note V for a detailed discussion of subsequent events.

General Obligation Capital Improvement and Refunding Warrants, Series 2003-A

On March 1, 2003, the Commission issued \$94,000 of tax-exempt General Obligation Capital Improvement and Refunding Warrants, Series 2003-A (GO Series 2003-A Warrants). These warrants were issued for the purpose of the current refunding of the Commission's outstanding General Obligation Warrants, Series 1993, for capital expenditures and payment of related issuance costs. The GO Series 2003-A Warrants are insured by a bond insurance policy issued by MBIA. The GO Series 2003-A Warrants have an outstanding principal balance of \$62,125 at September 30, 2007.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Series 2004-A General Obligation Warrants

On August 1, 2004, the Commission issued \$51,020 of tax-exempt General Obligation Warrants, Series 2004-A (GO Series 2004-A Warrants). These warrants were issued for the purpose of various capital improvements for the County and payment of the related issuance costs. The GO Series 2004-A Warrants are insured by a bond insurance policy issued by MBIA. The GO Series 2004-A Warrants have an outstanding principal balance of \$51,020 at September 30, 2007.

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. These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and for retirement of certain debt at the school boards. The repayment obligations related to the LO Series 2004-A Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds). The LO Series 2004-A Warrants have an outstanding principal balance of \$629,080 at September 30, 2007.

Limited Obligation School Warrants, Series 2005-A and 2005-B

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

A standby warrant purchase agreement with DEPFA BANK plc. (LO Liquidity Provider), as discussed further below, provide for the purchase of Series 2005-B Warrants tendered for purchase in accordance with the terms of the agreement.

The LO Series 2005-A and 2005-B Warrants are insured by a bond insurance policy issued by Ambac. The LO Series 2005-A and 2005-B Warrants have an outstanding principal balance of \$343,100 at September 30, 2007.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any monies accumulated in the Redemption Fund. Pledged Education Tax Revenues currently exceed the Commission's debt service requirements under the LO Series 2004-A Warrants and the LO Series 2005-A and 2005-B Warrants by approximately \$27,000 per year. The Commission used the excess Pledged Education Tax Revenues to redeem portions of the LO Series 2005-A Warrants during fiscal 2007.

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. The outstanding principal balance of the LR Series 2006 Warrants was \$86,745 at September 30, 2007.

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2007. Activity related to the long-term debt is as follows:

Issue	Balance at September 30, 2006	Additions	Payments	Balance at September 30, 2007	Due within One Year
Business-Type Activities:					
Series 1997-A Warrants	\$ 57,030	\$ -	\$ -	\$ 57,030	\$ -
Series 2001-A Warrants	15,365	-	795	14,570	830
Series 2002-A Warrants	110,000	-	-	110,000	-
Series 2002-C Warrants	839,500	-	2,700	836,800	2,800
Series 2003-A Warrants	31,210	-	2,935	28,275	3,055
Series 2003-B Warrants	1,155,765	-	-	1,155,765	-
Series 2003-C Warrants	1,052,025	-	-	1,052,025	-
	<u>3,260,895</u>	-	6,430	3,254,465	6,685
Governmental Activities:					
Series 2001-A GO Warrants	45,070	-	8,270	36,800	8,615
Series 2001-B GO Warrants	120,000	-	-	120,000	-
Series 2002 GO Warrants	5,270	-	5,270	-	-
Series 2003-A GO Warrants	72,310	-	10,185	62,125	5,815
Series 2004-A GO Warrants	51,020	-	-	51,020	-
Series 2004-A LO Warrants	650,000	-	20,920	629,080	21,965
Series 2005-A&B LO Warrants	376,810	-	33,710	343,100	10,150
Series 2006 Lease Warrants	86,745	-	-	86,745	990
	<u>1,407,225</u>	-	78,355	1,328,870	47,535
	<u>\$ 4,668,120</u>	<u>\$ -</u>	<u>\$ 84,785</u>	<u>\$ 4,583,335</u>	<u>\$ 54,220</u>

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

Standby Warrant Purchase Agreements

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

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

Under the terms of these Standby Warrant Purchase Agreements, certain of these warrants were tendered subsequent to year end by the warrant holders for purchase. Pursuant to the Standby Warrant Purchase Agreements, the Liquidity Providers have repurchased those of the warrants described in the preceding paragraph that have been so tendered.

In addition, notices of certain events of default were received subsequent to year end for these agreements. See Note V for a discussion of subsequent events.

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 Indenture (in thousands):

Fiscal Year Ending September 30	Business-Type Activities		Governmental Activities		Total Principal and Interest Requirements to Maturity		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2008	\$ 6,685	\$ 129,857	\$ 47,535	\$ 61,822	\$ 54,220	\$ 191,679	\$ 245,899
2009	15,150	129,278	49,685	59,531	64,835	188,809	253,644
2010	23,970	128,341	48,910	57,127	72,880	185,468	258,348
2011	32,195	127,070	49,770	54,762	81,965	181,832	263,797
2012	33,560	125,745	54,970	52,467	88,530	178,212	266,742
2013-2017	193,635	606,710	315,890	220,717	509,525	827,427	1,336,952
2018-2022	253,345	561,343	390,775	138,097	644,120	699,440	1,343,560
2023-2027	438,775	489,123	371,335	38,129	810,110	527,252	1,337,362
2028-2032	475,600	392,488	-	-	475,600	392,488	868,088
2033-2037	589,800	286,001	-	-	589,800	286,001	875,801
2038-2042	1,191,750	99,459	-	-	1,191,750	99,459	1,291,209
	<u>\$ 3,254,465</u>	<u>\$ 3,075,415</u>	<u>\$ 1,328,870</u>	<u>\$ 682,652</u>	<u>\$ 4,583,335</u>	<u>\$ 3,758,067</u>	<u>\$ 8,341,402</u>

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

As discussed in detail in Note V, significant subsequent events have occurred, resulting in the acceleration of certain warrant payments (under optional and mandatory tender of warrants) and notices of events of defaults on certain warrant and related agreements. The Commission has entered into certain Forbearance Agreements to forbear any action while efforts are made to restructure the warrant obligations.

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

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

While a restructuring of the warrant obligations could result in a revised payment schedule, the following table reflects the debt service requirements for the outstanding principal amounts on the warrants giving consideration to the subsequent events discussed in Note V as of the date of this report (in thousands):

Fiscal Year Ending September 30	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2008	\$ 61,222	\$ 42,460	\$ 103,682
2009	3,193,243	141,643	3,334,886
2010	-	140,693	140,693
2011	-	141,379	141,379
2012	-	39,525	39,525
2013-2017	-	228,430	228,430
2018-2022	-	298,855	298,855
2023-2027	-	295,885	295,885
	<u>\$ 3,254,465</u>	<u>\$ 1,328,870</u>	<u>\$ 4,583,335</u>

While the Notice of Default changes the status of the warrants to "demand bonds" (which are deemed callable under *GASB Interpretation No. 1*), the Trustee has not accelerated the payments due on the fixed rate or auction rate warrants. As discussed in Note V, the Variable Rate Demand Warrants have been called for optional redemption and are payable over a three-year period commencing on the date of tender.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Defeasance of Warrants and Deferred Loss on Refundings (in thousands)

In prior years, the Commission advance refunded certain revenue warrants by placing the proceeds of the new warrants in irrevocable trust accounts to provide for payment of all future debt service requirements, including the ultimate repayment of the warrants outstanding. The refundings pertaining to each warrant issue are noted in the descriptions of the warrants above. These warrants are defeased under the terms of the Indenture. Accordingly, the trust account assets and the liability for the defeased warrants are not included on the Commission's financial statements. At September 30, 2007, warrants of \$2,259,860 (\$2,227,330 of Business-Type Activities and \$32,530 of Governmental Activities) are outstanding, and the related fair market value of the escrow account balances for these defeased warrants held in trust totaled \$2,451,111 (\$2,419,678 Enterprise Fund and \$31,433 Governmental Fund) at September 30, 2007.

Warrant Issuance Costs and Premiums

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

	(In Thousands)		
	Premiums (Discounts) Net	Issuance Costs	Deferred Loss on Refundings
Business-Type Activities:			
Total premiums (discounts), net issuance costs, deferred loss on refundings	\$ 6,570	\$ 72,853	\$ 360,618
Accreted (amortized), net in prior years	<u>1,270</u>	<u>(6,978)</u>	<u>(37,807)</u>
	7,840	65,875	322,811
Current year (amortization) accretion, net	<u>(196)</u>	<u>(1,899)</u>	<u>(10,748)</u>
Net balance at September 30, 2007	<u>\$ 7,644</u>	<u>\$ 63,976</u>	<u>\$ 312,063</u>

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

	(In Thousands)		
	Premiums (Discounts) Net	Issuance Costs	Deferred Loss on Refundings
Governmental Activities:			
Total premiums (discounts), net issuance costs, deferred loss on refundings	\$ 51,347	\$ 19,128	\$ 1,793
Accreted (amortized), net in prior years	<u>(6,097)</u>	<u>(2,235)</u>	<u>(897)</u>
	45,250	16,893	896
Current year (amortization) accretion, net	<u>(2,743)</u>	<u>(980)</u>	<u>(256)</u>
Net balance at September 30, 2007	<u>\$ 42,507</u>	<u>\$ 15,913</u>	<u>\$ 640</u>
Commission total:			
Total premiums (discounts), net issuance costs, deferred loss on refundings	\$ 57,917	\$ 91,981	\$ 362,411
Accreted (amortized), net in prior years	<u>(4,827)</u>	<u>(9,213)</u>	<u>(38,704)</u>
	53,090	82,768	323,707
Current year (amortization) accretion, net	<u>(2,939)</u>	<u>(2,879)</u>	<u>(11,004)</u>
Net balance at September 30, 2007	<u>\$ 50,151</u>	<u>\$ 79,889</u>	<u>\$ 312,703</u>

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

Accrued Arbitrage Rebate (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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

The Commission has periodic arbitrage rebate calculations performed on tax-exempt bonds and accrues arbitrage rebates based on those calculations.

The Commission obtained the arbitrage rebate calculations for the Business-Type Activities tax-exempt warrants and recorded accrued arbitrage rebates of \$3,379, of which \$3,316 was paid during fiscal 2007 to the Internal Revenue Service, leaving an accrued balance of \$63 as of September 30, 2007.

The Commission obtained the arbitrage rebate calculations for the Governmental Activities tax-exempt warrants and has recorded accrued arbitrage rebates of \$39,723 as of September 30, 2007.

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, a rate stabilization fund which is maintained at a balance of 75 percent of the maximum annual debt service on the outstanding parity securities, subject to the availability of cash, 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, 2007. In addition, the proceeds from each warrant issue are placed in an escrow account to be disbursed based on approved expenditures for the proceeds. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted investments related to the warrant agreements totaled \$343,960 at September 30, 2007. See Note D for a discussion of the investments held at year end and Note V for events subsequent to year end.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Governmental Activities

The proceeds from each warrant issue are placed in an escrow account to be disbursed based on approved expenditures for the proceeds. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted investments totaled \$212,861 at September 30, 2007. 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 Indenture to provide certain information repositories with certain financial information and operating data relating to the Commission on an annual basis within 180 days after the end of its fiscal year and material events notices of the occurrence of certain events, if deemed material. The Annual Financial Information is required to be filed with each Nationally Recognized Municipal Securities Information Repository (NRMSIR) as designated by the Securities and Exchange Commission and any Alabama state information depository.

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

The Commission has issued numerous material events notices for events that occurred subsequent to September 30, 2007, including notices of events of default for certain agreements. See Note V for subsequent event disclosures regarding material events notices, forbearance agreements and other matters that relate to the warrant agreements.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

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

	Fiscal Year Ended September 30,			
	2007	2006	2005	2004
Active accounts	162,911	160,059	143,818	145,099
Average daily treatments volume (millions of gallons treated)	84	112	126	100
Sewer charges (000's)	\$153,472	\$132,954	\$127,756	\$127,826
% Revenue - largest customer	1.77%	1.85%	1.56%	3.23%
% Revenue - top 10 customers	5.77%	7.48%	7.60%	11.40%

As noted above, the average daily treatments volume declined in 2007, primarily as a result of usage restrictions imposed on the public due to severe drought conditions in Jefferson County.

2007 Top 10 Customers	Consumption (in Gallons)	Billed
U.S. Steel	628,086	\$ 2,717,173
University of Alabama - Birmingham	142,485	961,793
Brookwood Medical Center	118,249	797,185
Samford University	102,538	689,141
Jefferson County Jail	102,209	683,890
The Children's Hospital	94,456	636,806
Barber's Pure Milk Company	135,333	630,094
Birmingham Housing Authority	87,051	587,481
Pemco Aeroplex Inc.	86,511	584,495
Golden Flake Products	86,006	570,353
	<u>1,582,924</u>	<u>\$ 8,858,411</u>

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE J - WARRANTS PAYABLE - Continued

Effective January 1, 2007, the Commission implemented sewer rate increases. The rate increases were implemented in accordance with the Commission's resolutions and the Indenture with the trustee for the Sewer Revenue Warrants. The Commission also implemented a planned rate increase effective as of January 1, 2008, as required by the covenants of the Indenture. However, a rate increase was not implemented as of January 1, 2009 because the proper application of the rate covenant is one of the issues in the litigation with the Trustee and bond insurers (see Note V for a discussion of subsequent events).

Municipal Bond Insurance Policy

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

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

Certain events occurred subsequent to year end resulting in rating downgrades for the insurers of the warrants - see Note V for a complete discussion of subsequent events.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS

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

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

Terms

The interest rate swap agreements were executed with JPMorgan Chase Bank, Lehman Brothers Special Financing, Bear Stearns and Bank of America, NA, with notional amounts and terms of the agreements generally equal to the amount of the warrants outstanding as further discussed below. All information presented in this note is as of September 30, 2007; interest rates and terms may have changed subsequent to year end. See Note V for a discussion of events subsequent to year end.

The fair value of the interest rate swap agreements as of September 30, 2007, was estimated using the zero-coupon method. This method involves computing and summing the present value of each future net settlement that would be required by the swap terms if future spot interest rates match the forward rates implied by the current yield curve. The discount rates used are the spot interest rates implied by the current yield curve for hypothetical zero coupon bonds due on the date of each future net settlement on the interest rate swap agreement.

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

Risks

At September 30, 2007, the Commission is not exposed to significant counterparty credit risk because each of the total interest rate swap portfolios documented under each of the respective International Swap Dealers Association (ISDA) Master Agreements with JPMorgan Chase Bank, Lehman Brothers Special Financing, Bear Stearns and Bank of America, NA had a net negative fair value.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

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

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

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

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

Valuation

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

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

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

Subsequent Events

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Following is a summary of interest rate swap agreements outstanding at September 30, 2007 (all amounts reported in thousands):

Issue	Notional Amount at September 30, 2007	Transaction Date	Maturity Date	Type
Business-Type Activities				
Series 2002-A Warrants:				
JPMorgan Chase Bank	\$ 110,000	9/18/2001	2/1/2042	Swap
Bear Stearns	110,000	6/10/2004	2/1/2042	Suppl Swap
Series 2002-C Warrants:				
JPMorgan Chase Bank	537,711	10/23/2002	2/1/2040	Swap
Bank of America, NA	109,646	10/23/2002	2/1/2040	Swap
Lehman Brothers Special Financing	189,443	10/23/2002	2/1/2040	Swap
Bear Stearns	824,700	6/10/2004	2/1/2040	Suppl Swap
Series 2003-B Warrants:				
JPMorgan Chase Bank	1,035,800	3/28/2003	2/1/2042	Swap
Bear Stearns	633,078	6/10/2004	2/1/2042	Suppl Swap
Bank of America, NA	379,847	6/10/2004	2/1/2042	Suppl Swap
Series 2003-C Warrants:				
JPMorgan Chase Bank	789,019	7/14/2003	2/1/2042	Swap
Bank of America, NA	263,006	7/14/2003	2/1/2042	Swap
Series 1997-A, 2001-A, 2003-A:				
JPMorgan Chase Bank	99,875	11/7/2003	2/1/2024	Canc. Swap
Series 1997-A, 2001-A, 2002-C:				
JPMorgan Chase Bank	200,000	1/10/2001	1/1/2016	Swaption
Series 2002-A, 2002-C, 2003-B:				
JPMorgan Chase Bank	<u>175,000</u>	1/10/2001	1/1/2016	Swaption
	5,457,125			
Governmental Activities				
Series 2001-B Warrants:				
JPMorgan Chase Bank	<u>120,000</u>	4/17/2001	4/1/2011	Swap
	<u>\$ 5,577,125</u>			

There were three interest rate swap agreements that were terminated during 2007 for the Business-Type Activities. The \$70,000 interest rate swap agreement and related \$70,000 swaption with JPMorgan Chase Bank were cancelled effective February 1, 2007. In addition, the \$110,000 supplemental swap agreement with Bank of America, NA was terminated November 22, 2006, under the termination option included in the interest rate swap agreement.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Series 2002-A Sewer Revenue Warrants

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

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

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	5.0600%
Variable payment from counterparty	BMA	3.8400%
Net interest rate swap payments		1.2200%
Variable-rate warrant payments		3.9300%
Synthetic interest rate on warrants		5.1500%

Fair Value

As of September 30, 2007, the interest rate swap agreement had a negative fair value of \$16,200. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

Series 2002-C Sewer Refunding Warrants

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

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

The interest rate swap agreements had effective dates of October 25, 2002, and terminate on February 1, 2040. Under the interest rate swap agreements, the Commission makes payments based on a fixed rate of 3.92 percent and receives variable payments computed on the basis of 67 percent of the one-month LIBOR. The interest rate swap agreements have a combined original notional amount of \$839,500.

The interest rate swap agreements amortize with the related warrant agreements and had remaining notional balances at September 30, 2007, of \$537,711, \$189,443 and \$109,646, respectively. The warrants' variable interest rates are not based on an index but on market conditions.

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.9200%
Variable payment from counterparty	67% of LIBOR	<u>3.8324%</u>
Net interest rate swap payments		0.0876%
Variable-rate warrant payments		<u>3.8490%</u>
Synthetic interest rate on warrants		<u><u>3.9366%</u></u>

Fair Value

As of September 30, 2007, the interest rate swap agreements had a negative fair value of \$34,060. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Series 2003-B1-B7 Sewer Refunding Warrants

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

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.6780%
Variable payment from counterparty	67% of LIBOR	<u>3.8324%</u>
Net interest rate swap payments		(0.1544%)
Variable-rate warrant payments		<u>4.0800%</u>
Synthetic interest rate on warrants		<u><u>3.9256%</u></u>

Fair Value

As of September 30, 2007, the interest rate swap agreement had a negative fair value of \$9,620. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

Series 2003-C Sewer Refunding Warrants

In July 2003, the Commission entered into two interest rate swap agreements to effectively change the Commission's interest rate on the Series 2003-C warrants to a fixed rate. The interest rate swap agreements were executed with JPMorgan Chase Bank and Bank of America, NA, with notional amounts of \$789,019 and \$263,006, respectively. The interest rate swap agreements had an effective date of August 7, 2003, and terminate on February 1, 2042.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Under the interest rate swap agreements, the Commission makes payments based on a fixed rate of 3.596 percent and receives variable rate payments computed on the basis of 67 percent of the one-month LIBOR. The interest rate swap agreements have a combined notional amount of \$1,052,025. The warrants' variable interest rates are not based on an index but on market conditions.

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	3.5960%
Variable payment from counterparty	67% of LIBOR	3.8324%
Net interest rate swap payments		(0.2364%)
Variable-rate warrant payments		3.9700%
Synthetic interest rate on warrants		3.7336%

Fair Value

As of September 30, 2007, the interest rate swap agreements had a fair value of \$2,560. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

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

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

Terms

The interest rate swap agreement was executed with JPMorgan Chase Bank. Under the swap agreement and short-term interim reversal, the Commission received a fixed payment of 1.52 percent per year until February 1, 2004. The notional amount of the interest rate swap agreement is \$200,000 and terminates on January 1, 2016. The interim reversal expired on February 1, 2004, and JPMorgan Chase Bank executed its option to cancel the swap on February 1, 2004. JPMorgan Chase Bank maintains the option to reinstate the swap agreement on or after February 1, 2009.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

If the agreement is reinstated, the Commission will make variable payments calculated on the basis of the BMA Municipal Swap Index and will receive payments based on a fixed rate of 5.069 percent.

Fair Value

As of September 30, 2007, the swaption had a negative fair value of \$1,590. The fair value of the option was estimated using the BDT model. This model takes into consideration probabilities, volatilities, time and underlying prices.

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

Various Amounts of the Series 2002-A, 2002-C, 2003-B-8 Sewer Revenue Warrants

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

Under the interest rate swap agreement and short-term interim reversal, the Commission received a fixed payment of 1.455 percent per year until February 1, 2004. The notional amount of the interest rate swap agreement is \$175,000, and it terminates on January 1, 2016. The interim reversal expired on February 1, 2004, and JPMorgan Chase Bank executed its option to cancel this swap agreement on February 1, 2004. JPMorgan Chase Bank maintains the option to reinstate the agreement on or after February 1, 2009. If the swap agreement is reinstated, the Commission will make variable payments calculated on the basis of BMA Municipal Swap Index and will receive payments based on a fixed rate of 5.225 percent.

Fair Value

As of September 30, 2007, the swaption had a negative fair value of \$1,170. The fair value of the option was estimated using the BDT model. This model takes into consideration probabilities, volatilities, time and underlying prices.

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Various Amounts of the Series 1997-A, 2001-A, 2003-A Sewer Revenue Warrants

In November of 2003, the Commission entered into a fixed-to-variable interest rate swap agreement tied to various amounts of warrants for an original notional amount of \$111.825. The interest rate swap agreement was effective May 1, 2004, and was executed with JPMorgan Chase Bank. Under the interest rate swap agreement, the Commission makes variable payments calculated on the basis of BMA Municipal Swap Index and receives payments based on a fixed rate of 4.325 percent. The interest rate swap agreement has a remaining notional amount of \$99.875, and it terminates on February 1, 2024. JPMorgan Chase Bank maintains the option to cancel this swap agreement (see below).

	Terms	Rates
Interest rate swap:		
Variable payment to counterparty	BMA	3.8400%
Fixed payment from counterparty	Fixed	<u>4.3250%</u>
Net interest rate swap payments		(0.4850%)
Fixed-rate warrant payments		<u>4.5659%</u>
Synthetic interest rate on warrants		<u><u>4.0809%</u></u>

Fair Value

As of September 30, 2007, the interest rate swap agreement had a fair value of \$130. The fair value of the interest rate swap agreement was estimated using the zero-coupon method. The fair value of the option was estimated using the BDT model.

The interest rate swap agreement increases the Commission's exposure to variable interest rates. As BMA increases, the Commission's net payments on the swap transaction increase. The counterparty may terminate the agreement on or after November 1, 2005.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Restructuring of Series 2002-A, 2002-C and 2003-B Swaps

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

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

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

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Fair Value

As of September 30, 2007, the swaps had a negative fair value of \$30,900. The fair value of the interest rate swap agreement was estimated using the zero-coupon method.

Risks

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

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants, Series 2001-B

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

Under the interest rate swap agreement, the Commission pays a fixed rate of 4.295 percent and receives payments based on the variable rate BMA Municipal Swap Index. The interest rate swap agreement has a notional amount of \$120,000. The warrants' variable interest rates are not based on an index but on market conditions.

	Terms	Rates
Interest rate swap:		
Fixed payment to counterparty	Fixed	4.2950%
Variable payment from counterparty	BMA	<u>3.8400%</u>
Net interest rate swap payments		0.4550%
Variable-rate warrant payments		<u>3.7800%</u>
Synthetic interest rate on warrants		<u><u>4.2350%</u></u>

Fair Value

As of September 30, 2007, the interest rate swap agreement had a negative fair value of \$6,290. Since the interest rates on the Commission's variable rate warrants adjust to changing interest rates, the warrants do not have a corresponding fair value increase. The fair value of the swap agreement was estimated using the zero-coupon method.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Risks

The interest rate swap agreements expose the Commission to basis risk should the relationship between LIBOR and the rates on the warrants diverge.

Estimated Net Swap Payments (Receipts)

The following is a schedule of net payments (receipts) on the interest rate swap agreements to termination, based on interest rates as of September 30, 2007, with the assumption the rates remain the same for the term of the swap agreements. The actual payments (reductions) subsequent to September 30, 2007, are subject to market rate fluctuations and are subject to significant changes from that presented in the following table (in thousands):

Fiscal Year Ending September 30	Business-Type Activities	Governmental Activities	Net (Receipts) Payments
2008	\$ (2,447)	\$ 546	\$ (1,901)
2009	(2,414)	546	(1,868)
2010	(2,380)	546	(1,834)
2011	(2,344)	546	(1,798)
2012	(2,306)	-	(2,306)
2013-2017	(10,906)	-	(10,906)
2018-2022	(9,163)	-	(9,163)
2023-2027	(7,414)	-	(7,414)
2028-2032	(3,896)	-	(3,896)
2033-2037	(1,361)	-	(1,361)
2038-2042	2,204	-	2,204
	<u>\$ (42,427)</u>	<u>\$ 2,184</u>	<u>\$ (40,243)</u>

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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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, 2007, the principal amount outstanding was \$34,435,000.

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, 2007. 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, 2007, the Commission's annual pension contribution of \$9,276,014 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, 2007, the latest actuarial valuation date, were: (a) 7.0-percent investment rate of return on present and future assets and (b) projected salary increases of 5.5 percent. Both (a) and (b) include an inflation component of 4.0 percent.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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, 2007, was 18 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
09/30/07	\$ 9,276	100%	\$ -
09/30/06 (unaudited)	23,445*	100%	-
09/30/05 (unaudited)	8,992	100%	-

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

Schedule of Funding Progress

The schedule of funding progress presents multiyear trend information about whether the actuarial value of Plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. For the year ended September 30, 2007, the schedule of funding progress and related information for the Commission is as follows:

(In Thousands)							
Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL As a Percentage of Covered Payroll [(b-a)/c]	
09/30/07	\$ 948,748	\$ 834,715	\$ (114,033)	113.70%	\$ 158,673	(71.90%)	
09/30/06	869,689	755,661	(114,028)	115.10%	153,115	(74.50%)	
09/30/05	819,835	727,744	(92,091)	112.70%	151,394	(60.80%)	

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS)

In addition to the pension benefits described in Note M, the Commission provides postemployment health care benefits in accordance with a resolution approved by the Commission on September 25, 1990, to employees who meet the following eligibility requirements. Employees must: (a) have been covered by the Commission group health care plan at the time of retirement, (b) immediately upon retirement begin receiving a retirement pension under the rules and regulations of the General Retirement System for the Employees of Jefferson County, Alabama, and the amount of the pension must be sufficient to cover the required retiree contributions, (c) be under 65 years of age, and (d) not be eligible for Medicare. The Commission adopted a resolution on September 22, 1992, to allow those retirees who are not eligible to receive a retirement pension to participate in the health care plan by prepaying to the Commission the semiannual premium for the retiree contributions.

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

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

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

Currently 494 retirees meet eligibility requirements. The Commission subsidizes a portion of the retirees' health care insurance premiums based on the total years of County service and age at retirement. The Commission's subsidy for each covered retired employee ranges from \$44 to \$1,002 per month, and total insurance premiums range from \$451 to \$1,130. Benefits are funded on a pay-as-you-go basis. Expenditures for postretirement health care benefits are made and recognized as premiums are paid. During the year, costs of \$4,362,728 were recognized for postretirement health benefits.

See Note W for new applicable accounting pronouncement effective for fiscal year 2008.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE O - COUNTY APPROPRIATION AGREEMENT

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

The Commission levies a special privilege or license tax (the County Special Tax) at the rate of one-half of one percent of the gross receipts of each person following a vocation, occupation, calling or profession within the County. In the Pledge and Appropriation Agreement (the Agreement), the Commission agreed to pay the Authority, from proceeds of the County Special Tax, \$10,000,000 collected in each year, payable semiannually in June and December. The final payment under the Agreement was made in December 2008.

**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, 2007, the Development Authority was indebted to the Commission in the amount of \$18,036,000, which is presented as a due to/from other funds in the accompanying balance sheet. This amount is eliminated in the government-wide statement of net assets.

Warrants Payable

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2007:

	(In Thousands)			
	Beginning Balance	Additions	Reductions	Ending Balance
Warrant issue - 2004 series	\$ 8,310	\$ -	\$ 1,210	\$ 7,100
Less amount due in one year				1,294
				\$ 5,806

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Warrants payable are comprised of the following at September 30, 2007 (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 \$34 and deferred loss on refunding of \$240 in 2007)	\$ 6,826
Less amount due in one year, net	<u>1,245</u>
Warrants payable - noncurrent, net	<u><u>\$ 5,581</u></u>

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

	Principal	Interest	Total
2008	\$ 1,294	\$ 239	\$ 1,533
2009	1,285	200	1,485
2010	1,330	155	1,485
2011	1,390	103	1,493
2012	1,435	61	1,496
2013	<u>366</u>	<u>15</u>	<u>381</u>
	<u><u>\$ 7,100</u></u>	<u><u>\$ 773</u></u>	<u><u>\$ 7,873</u></u>

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

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

Defeased Debt

On February 2, 2004, the Development Authority issued \$10,650,000 of Industrial Park Revenue Bonds of which \$10,650,000 was placed in an irrevocable trust for the purpose of generating resources for all future debt service payments through 2013 (\$11,465,000 principal) of the 1998 bonds. As a result, the refunded bonds are considered to be defeased, and the liability has been removed. This advanced refunding undertaken decreased total debt service payments over the next 10 years by a cash benefit of approximately \$2,862,117 and obtained an estimated economic gain (difference between the present value of the debt service payments of the refunded and refunding bonds) of approximately \$2,455,400. As of September 30, 2007, \$11,465,000 of bonds are considered defeased. The outstanding balance of the defeased debt as of September 30, 2007, was \$8,690,000.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS

Advances to/from Other Funds

The amounts of advances to/from other funds at September 30, 2007, were as follows:

	Advances from Other Funds (in Thousands)					Totals
	General Fund	Limited Obligation School Fund	Indigent Care Fund	Nonmajor Governmental Funds	Nonmajor Proprietary Funds	
Advances to other funds:						
Cooper Green Hospital Fund	\$ 1,127	\$ -	\$ -	\$ 6,230	\$ -	\$ 7,357
Sanitary Operations Fund	1,554	-	-	-	-	1,554
General Fund	-	-	-	-	19,336	19,336
Nonmajor Governmental Funds	57,142	1,576	960	24,170	22,465	106,313
Nonmajor Proprietary Funds	527	-	-	2,182	-	2,709
	<u>\$ 60,350</u>	<u>\$ 1,576</u>	<u>\$ 960</u>	<u>\$ 32,582</u>	<u>\$ 41,801</u>	<u>\$ 137,269</u>

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 related to the overpayment of self-insurance costs to the general fund and are expected to be repaid within one year.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE Q - TRANSACTIONS WITH OTHER FUNDS - Continued

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2007, were as follows:

	Transfers in (in Thousands)						Totals
	General Fund	Indigent Care Fund	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Governmental Funds	Nonmajor Proprietary Funds	
Transfers out:							
General Fund	\$ -	\$ -	\$ 1,834	\$ 2	\$ 944	\$ 4,200	\$ 6,980
Indigent Care Fund	-	-	47,514	-	-	-	47,514
Cooper Green Hospital	333	374	-	-	465	-	1,172
Sanitary Operations Fund	30	-	-	-	-	-	30
Nonmajor Governmental Funds	8,782	-	-	-	82,110	-	90,892
	<u>\$ 9,145</u>	<u>\$ 374</u>	<u>\$ 49,348</u>	<u>\$ 2</u>	<u>\$ 83,519</u>	<u>\$ 4,200</u>	<u>\$ 146,588</u>

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

NOTE R - JOINTLY GOVERNED ORGANIZATION

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION

In September 2008, The Bank of New York Mellon, the Indenture Trustee for the Commission's Trust Indenture (the Indenture), dated February 1997 (see Note J), at the request of and joined by the bond insurers insuring the majority of the indebtedness of the Jefferson County Sewer System (the System), filed suit against the Commission, alleging various defaults and Events of Default under the Indenture. Among other things, the Indenture Trustee and the bond insurers seek the appointment of a receiver to assume control of the System. The Commission has answered the suit, denying any default or Event of Default and counterclaiming against the plaintiff bond insurers whose ratings downgrades precipitated the System's financial difficulties. See Note X for further discussion.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE 5 - CONTINGENT LIABILITIES AND LITIGATION - Continued

The federal judge hearing the action recently delayed ruling on the plaintiffs' emergency motion for the appointment of a receiver over the System and appointed special masters to review various legal and operational issues relating to the System's expenses and revenues. The Commission's sewer indebtedness is secured by a pledge of the net revenues from the operation of the System (meaning that operating expenses of the System are paid before debt service) and is nonrecourse as to the Commission (meaning that the holders of the System's debt have no claim against the Commission's general fund or non-System revenues). Nevertheless, the potential adverse effect of the appointment of a receiver over the System could be material to the Commission's financial statements.

A lawsuit was filed to contest the Commission's ability to levy occupational taxes and claimed that such occupational taxes and certain business license fees paid since 2000 should be refunded to taxpayers. On January 12, 2009, a Circuit Court ruling on the case was issued indicating that the occupational taxes and business license fees were effectively repealed in prior years. The ruling does not call for retroactive refunding of such occupational taxes and business license fees collected. The Commission may continue to collect such taxes and fees during its appeal process but was instructed to maintain the newly collected funds in an interest-bearing escrow account and not expend them. Such funding comprises a significant component of General Fund revenues each year (\$73,798,000 for the year ended September 30, 2007), and the Commission has stated its intention to appeal the ruling to the Alabama Supreme Court.

The Commission is currently defending various other lawsuits. In addition, claims against the Commission have been filed that have not yet resulted in lawsuits. According to the County Attorney, the potential adverse impact of these lawsuits and claims (except for the occupational tax lawsuit), individually or in the aggregate, would not be material to the financial statements of the Commission.

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. Commission management believes such disallowances, if any, will be immaterial.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE T - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At September 30, 2007, the Commission has commitments of the following:

Name of Commitment	(In Thousands) Amount
Annual house staffing	\$ 1,862
Bessemer Courthouse expansion	4,244
Bessemer Jail	7,486
Community Arts Fund	568
Contractor's steel	504
Contracted personnel	639
Cooper Green Hospital renovations	3,917
Correctional health	1,333
Five Mile Creek sewer improvements	14,706
Highlands subdivision pump	1,351
Jefferson County kitchen improvements	1,197
Kilgore Memorial Parkway	1,943
Liquidity facility fee	712
Lower Valley Creek sewer improvements	2,848
Main Street extension bridge	900
Newfound Creek	614
Physician staffing	14,111
Sanitary sewer improvements	528
Shades Creek sewer improvements	3,898
Shades Valley transfer	595
Stellar teaching program	552
Thoroughfare plan	1,123
Valley Creek sewer improvements	11,865
Village Creek sewer improvements	1,687
Warrior River sewer improvements	526
	<hr/>
	\$ 79,709
	<hr/> <hr/>

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE U - RISK MANAGEMENT

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

- *General and Auto Liability* - Self-insured with an established department to finance losses.
- *Workers' Compensation* - Self-insured with a retention of \$500,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.
- *Property Insurance* - Commercial insurance coverage purchased in the amount of \$300 million per occurrence, except a separate annual aggregate of \$50 million flood and earthquake, to include the following sublimits: (a) the Commission participates in an Owner Controlled Insurance Program with respect to property in the course of construction, builder's risks and installation or erection; (b) \$10 million per occurrence as included in the \$300 million loss limit subject to the policy terms and conditions; (c) \$5 million with respect to extra expense and (d) \$500,000 with respect to transit.
- *Boiler and Machinery Insurance* - Commercial insurance coverage purchased in the amount of \$100 million per occurrence.
- *Hospital and Nursing Home Medical Malpractice and General Liability* - Medical professional employees purchase individual insurance protection that is applicable to their County employment. The Commission reimburses premiums for medical malpractice - professional liability insurance coverage for County medical professional employees in amounts up to a stated amount per year. Coverage consists of \$1 million per occurrence and \$6 million aggregate.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE U - RISK MANAGEMENT - Continued

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

For the year ended September 30, 2007, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

Balance October 1, 2006	Claims Incurred	Claims Paid	Increase/ Decrease in Provision	Balance September 30, 2007
\$ 2,247,000	\$ 31,966,000	\$ (27,967,000)	\$ (4,011,000)	\$ 2,235,000

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE U - RISK MANAGEMENT - Continued

For the year ended September 30, 2007, 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	
	2007	Unaudited 2006	2007	Unaudited 2006	2007	Unaudited 2006	2007	Unaudited 2006
Unpaid claims and claim adjustment expenses:								
Accrual at beginning of fiscal year	\$ 1,835	\$ 1,834	\$ 612	\$ 611	\$ 3,857	\$ 3,757	\$ 6,304	\$ 6,202
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	86	225	52	122	1,137	1,415	1,275	1,762
Increases/decreases in provision for insured events of prior fiscal years	-	-	-	-	-	-	-	-
Total incurred claims and claim adjustment expenses	86	225	52	122	1,137	1,415	1,275	1,762
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(127)	(224)	(70)	(121)	(1,024)	(1,315)	(1,221)	(1,660)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	-	-	-	-	-	-	-	-
Total payments	(127)	(224)	(70)	(121)	(1,024)	(1,315)	(1,221)	(1,660)
Accrual at end of fiscal year	\$ 1,794	\$ 1,835	\$ 594	\$ 612	\$ 3,970	\$ 3,857	\$ 6,358	\$ 6,304

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Sewer Revenue Warrants

As of October 31, 2008, the Commission has outstanding \$57,030 aggregate principal amount of its Series 1997-A Warrants, \$13,740 of its Series 2001-A Warrants, \$25,220 of its Series 2003-A Warrants, \$119,965 of its Series 2003-B-8 Warrants (collectively referred as the Fixed Rate Sewer Revenue Warrants), \$101,465 aggregate principal amount of its Series 2002-A Warrants, \$409,638 of its Series 2002-C-2 to C-7 Warrants, \$281,260 of its 2003-B-2 to B-7 Warrants (collectively referred to as the Variable Rate Demand Sewer Revenue Warrants), \$397,100 aggregate principal amount of its Series 2002-C-1-A to 1-D and 2001-C-5 Warrants, \$735,800 of its Series 2003-B-1-A to 1-E Warrants, and \$1,052,025 of its Series 2003-C Warrants (collectively referred to as the Auction Rate Sewer Revenue Warrants). Of the \$3,193,243 of warrants outstanding at October 31, 2008, \$2,851,253 of warrants is insured by FGIC or XL Capital.

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

Material Events Notices

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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

In prior years, the Commission entered into 13 separate interest rate swap agreements for Business-Type Activities' warrants - see Note K. The downgrade of the Commission's underlying rating on the warrants to 'Baa3' by Moody's on February 20, 2008, will result in the occurrence of an Additional Termination Event under each of the interest rate swap agreements unless the Commission makes certain additional collateral available or provides insurance to the counterparties for its obligations under the interest rate swap agreements by a specified date - see Interest Rate Swap Agreements Termination Events discussion below.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

In addition, the further downgrade of FGIC to 'BB' by S&P resulted in an accelerated replenishment requirement for the FGIC surety bonds (\$19.885) currently held by the Trustee in the Reserve Fund. See Substitution of Surety Bonds in Reserve Fund discussion below.

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

At the time of this notice, the Commission had received no notice of a default from the Trustee under the Indenture.

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

June 9, 2008 - The June 9, 2008, Material Event Notice disclosed the further downgrade of the warrants insured by XL Capital from 'A-' to 'BBB-' by S&P. The downgrade was in conjunction with the corresponding reduction in rating agency's financial strength and financial enhancement ratings of XL Capital. As a result of the earlier downgrades to FGIC described in prior notices discussed above, the Commission began making monthly cash deposits in the amount of \$1.657 million to the Reserve Fund. The most recent downgrade of XL Capital disqualifies the XL Capital surety bond in the amount of \$164.863. See Substitution of Surety Bonds in Reserve Fund discussion below.

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

Also see Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements discussion below.

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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 due to the extraordinary increases in interest cost experienced by the Commission on the Variable Rate Demand Warrants and Auction Rate Warrants, as described in prior Notices.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

The Trustee has been required to draw on the Debt Service Reserve Fund 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. Net sewer revenues are expected to continue to be insufficient to meet the debt service obligations of the Warrants. Accordingly, 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 the deficiency.

Substitution of Surety Bonds in Reserve Fund

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

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

As permitted by the Indenture, in April 2005, the Commission caused XL Capital to deliver to the Trustee a Debt Service Reserve Insurance Policy pursuant to which up to \$164,864 may be paid, and caused Financial Security Assurance Inc. to deliver to the Trustee a Municipal Bond Debt Service Reserve Insurance Policy pursuant to which up to \$26,422 may be paid.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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 began making monthly cash transfers of \$1,657 to the Reserve Fund, as further described in the following paragraph. As of September 30, 2008, the balance in the fund was \$29,438.

In March 2008, S&P and Moody's downgraded FGIC, resulting in an accelerated replenishment requirement for the FGIC surety bonds (in the aggregate amount of \$19.884) currently held by the Trustee in the Reserve Fund (as discussed above). The Indenture requires the Commission to (a) substitute a surety bond, insurance policy or letter of credit that satisfies the requirements of the Indenture within six months or (b) restore the Reserve Fund to a level equal to the Reserve Fund Requirement by making cash deposits to the Reserve Fund over a period of one year in equal monthly installments (\$1.657 per month).

In June 2008, S&P and Moody's downgraded XL Capital, resulting in an accelerated replenishment requirement, subject to the same requirements described in the immediately preceding paragraph, for the XL Capital surety bonds (in the aggregate amount of \$164.864) currently held by the Trustee in the Reserve Fund.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

Event of Default under Standby Warrant Purchase Agreements

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

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
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NOTE V - SUBSEQUENT EVENTS - 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 expires in February 2009 but was terminated in September 2008 - see below). The Commission received a Notice of Redemption of Bank Warrants dated April 15, 2008 relating to the standby warrant purchase agreements. The tendered warrants are to be repaid by the Commission, if such warrants are not remarketed, over an accelerated schedule equal to 16 equal semiannual installments from the date the banks (Liquidity Providers) purchased such warrants (except for the Series 2002-A Warrants as discussed below under Termination of Standby Warrant Purchase Agreement - Series 2002-A).

The Liquidity Agent (JP Morgan Chase Bank) entered into Redemption Date Deferral Agreements with the Commission related to the Series 2002-C-2 warrants to defer the payments due to the Liquidity Agent and Providers to February 20, 2009 if a partial payment of \$4.605 (originally due on December 8, 2008) is made by the Commission on or before January 2, 2009. The amount due at the expiration of the Liquidity Facility Forbearance Agreements, if such warrants are not remarketed, as of the October 29, 2008. Material Event Notice totaled approximately \$34,865.

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

Termination of Standby Warrant Purchase Agreement - Series 2002-A

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

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

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

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

Pursuant to the Liquidity Facility, as a result of the occurrence and continuation of the Event of Default specified in Section 8.01(o) of the Liquidity Facility, the Commission is required to redeem all Series 2002-A Warrants held by the Liquidity Provider in four equal quarterly installments, beginning October 1, 2008.

The Liquidity Provider authorized the Trustee to defer to February 20, 2009, any remaining unpaid quarterly installments that were previously scheduled to be redeemed by the Commission (on January 1, 2009) if an additional partial payment of \$25.365 (originally due on December 8, 2008) was made on or before January 2, 2009.

Liquidity Facility Forbearance Agreements

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

The Liquidity Facility Forbearance Agreements generally provide that, during the forbearance period, the Liquidity Providers will forbear from exercising any rights or remedies that the Liquidity Providers have or may have, now or hereafter, arising during the forbearance period as a result of any and all defaults and events of defaults existing under the Liquidity Facilities. The initial forbearance period expired on April 15, 2008, and has been extended to February 20, 2009, subject to termination at any time at the discretion of the Liquidity Providers.

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

The Liquidity Facility Forbearance Agreements also provide that the Commission will pay interest on the Bank Warrants at the rate equal to the base rate plus 1.00 percent during the forbearance period, although interest on the Bank Warrants has and will continue to accrue interest at the default rate (see Impact on Interest Rates and Payments section below for definitions of base and default rates). The difference between the interest accrued at the default rate and the interest paid to the Liquidity Providers during the forbearance period was due on August 1, 2008, but has been extended to February 20, 2009.

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

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

Interest Rate Swap Agreements Termination Events

In connection with the issuance of the Sewer Revenue Warrants, the Commission entered into 13 separate interest rate swap transactions with Bank of America, NA, Bear Stearns Capital Markets Inc., JPMorgan Chase Bank and Lehman Brothers Special Financing Inc. outstanding in an aggregate notional amount of approximately \$5.4 billion as of September 30, 2008.

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

With the occurrence of the Additional Termination Events, each counterparty now has the right, exercisable at its discretion, to terminate its swap transactions upon notice to the Commission. If the counterparties choose to exercise their rights to terminate, the Commission would be obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreements. The aggregate amount of the termination payments that would be due if all of the swap transactions are terminated was approximately \$234 million as of July 31, 2008; however, such amount can vary significantly on a daily basis.

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 Commission also 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.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

The Commission has not made any periodic payments with regards to the interest rate swap agreements with Bank of America, N.A. or Lehman Brothers Special Financing, Inc. since the date of the original Swap Forbearance Agreement (see discussion below), and a net payment from the Commission to Bank of America, N.A. and Lehman Brothers Special Financing, Inc. will be due in addition to the swap termination payment, if an extension of the Swap Forbearance Agreement cannot be obtained in the case of Lehman Brothers Special Financing, Inc. and upon the expiration of the Swap Forbearance Agreement (including any subsequent extensions) in the case of Bank of America, N.A.

Swap Forbearance Agreements

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

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

The initial swap forbearance period expired on April 15, 2008, and has been extended to February 20, 2009, subject to certain conditions, (except the Lehman Brothers Special Financing, Inc. agreement which expired on November 17, 2008, and has not been extended further as of the date of this report - see previous section for further discussion).

Under the Swap Forbearance Agreements, the counterparties have the right to terminate the swap transactions, but the termination payments will not be due until the date described above, provided no event occurs that would result in early termination of the Swap Forbearance Agreements. See previous section for discussion of notice of Early Termination from Bank of America, N.A. and Lehman Brothers Special Financing, Inc. effective July 15, 2008 and December 15, 2008, respectively.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

Impact on Interest Rates and Payments

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

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

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

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

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%

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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

In addition, as a result of certain events described above, the Commission has engaged consultants to assist in a restructuring of the long-term indebtedness. (See Note X.)

Warrant Repayments Subsequent to Year End

In connection with scheduled maturities and certain forbearance agreements entered into with the banks and liquidity providers, as discussed above, the Commission has made payments on various warrants totaling approximately \$61,000 subsequent to September 30, 2007 through October 31, 2008. Certain additional payments totaling approximately \$81,000 were made by the bond insurers (FGIC and XL Capital).

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

Notice of Issuer Event of Default on Repurchase Agreement

The Commission held an Investment Repurchase Agreement (the Agreement) dated March 1997 with The Bank of New York (the Trustee), Wells Fargo Bank (as Custodian) and Bayerische Landesbank through its New York Branch (the Seller). The Seller notified the Commission on October 16, 2008, that an event of default had occurred under the Agreement pursuant to Section 11.2(c) and declared an immediate repurchase date for all remaining securities held in the custody account. As a result, the repurchase agreement totaling approximately \$54,000 (discussed further in Note D to the financial statements) was terminated and repaid subsequent to September 30, 2007.

Reduction in Restricted Cash Balances

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

GOVERNMENTAL ACTIVITIES (amounts in thousands)

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

As of September 30, 2008, the Commission has outstanding \$28,185 aggregate principal of its General Obligation Warrants, Series 2001-A, \$56,310 aggregate principal of its General Obligation Warrants, Series 2003-A, \$51,020 aggregate principal of its General Obligation Warrants, Series 2004-A, \$607,115 aggregate principal of its Limited Obligation School Warrants, Series 2004-A (together, the Fixed Rate Warrants), \$332,950 of its Limited Obligation School Warrants, Series 2005-A (\$166,475 of Auction Rate Warrants) and 2005-B (\$166,475 of Variable Rate Warrants), \$120,000 aggregate principal of its General Obligation Warrants, Series 2001-B (Variable Rate Warrants) and \$85,755 of its Lease Revenue Warrants, Series 2006.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

Material Events Notices

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

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

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

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

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

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

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

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

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

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

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

September 8, 2008 - The September 8, 2008, Material Event Notice disclosed rating downgrades on the underlying rating assigned to the General Obligation Warrants by S&P from 'BBB' to 'B.'

In addition, the underlying rating assigned to the Limited Obligation School Warrants by S&P was reduced from 'A' to 'BBB,' and the ratings assigned to the Lease Revenue Warrants by S&P was reduced from 'BBB-' to 'B-.'

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

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

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

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

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

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

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

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

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

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

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

Notice of Event of Default - General Obligation Warrants, Series 2001-B

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

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

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

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

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

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

The first installment of the six semiannual installments was due on September 15, 2008. The Commission was unable to make the mandatory redemption. On September 15, 2008, the Commission entered into separate forbearance agreements with the GO Liquidity Providers to forbear the warrants that were due until September 30, 2008. The forbearance agreements, among other items, states that the GO Liquidity Providers will not exercise their rights under the agreement. The Forbearance Agreement was subsequently extended to March 12, 2009 (see Material Event Notices (above) and Liquidity Facility Forbearance Agreements discussion below). Subsequent to September 30, 2007, the Commission repaid \$15,000 of the outstanding obligations due to the GO Liquidity Providers.

Liquidity Facility Forbearance Agreements

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

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 Provider and Liquidity Agents). The Forbearance Agreement generally provides that during the forbearance period, the counterparties will forbear from exercising any rights or remedies that the Liquidity Provider has or may have, now or hereafter arising during the forbearance period. The forbearance period originally continued until September 30, 2008.

The Commission subsequently entered into separate agreements with each party to extend the Forbearance Agreements, with the latest extension dated January 14, 2009, that extends the forbearance period to March 12, 2009.

Interest Rate Swap Agreement Termination Event

In connection with the issuance of the General Obligation Warrants, Series 2001-B, the Commission entered into an interest rate swap agreement for a notional amount of \$120,000.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE V - SUBSEQUENT EVENTS - Continued

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

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

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

Covenant Violations and Notice of Default - Limited Obligation School Warrants

The Commission received notice of a covenant violation and potential event of default relating to the Limited Obligation School Warrants dated April 23, 2008, from US Bank related to the failure to provide a copy of an audit of the receipts and disbursements of the Education Tax Proceeds to the Trustee within 180 days following the close of each fiscal year of the Commission per Section 17.1(b) of the Trust Indenture.

The Commission has responded to the Trustee and is diligently pursuing appropriate corrective action. However, as of the date of this report, the Trustee had not responded or waived the covenant violation.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE W - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

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

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

NOTE X - UNCERTAINTIES

In the first quarter of 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 notes, early amortization of principal. Prior to these events, the System's cash flows generally were sufficient to meet operating expenses and to service the debt on the System. As a result of these events, debt service on the System debt has exceeded the net revenues of the System. However, the Commission continues to operate the System, collect revenues, and plan and carry out needed maintenance and capital improvements.

**JEFFERSON COUNTY COMMISSION
NOTES TO FINANCIAL STATEMENTS
SEPTEMBER 30, 2007**

NOTE X - UNCERTAINTIES - Continued

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

Current projections for fiscal year 2009 show that the net revenues of the System will be insufficient to service the System's debt. The bond insurers currently are paying a portion of the System's debt service pursuant to policies issued in connection with the System's debt, and such policies provide for the Commission's reimbursement of the payments made by the bond insurers. Because the System's debt is secured by a pledge of only the net revenues of the System, the Commission is allowed by the governing documents (and required by law) to pay all operating expenses prior to the payment of debt service. Because of the nonrecourse nature of the System debt, holders of the System debt have no claim against the Commission's General Fund or non-System revenues.

As of the date of this report, the Commission is engaged in a multipronged, comprehensive process to refinance or restructure the System debt without recourse to a Chapter 9 filing. Without limitation, the Commission is engaged in a comprehensive review of System rates, expenses and revenues. See Note S for discussion of contingent liabilities. The Commission also has enlisted the help of Governor Bob Riley to negotiate concessions from the bond insurers and other holders of the System debt and to consider various proposals to enhance the System's credit with non-System revenues and federal guaranties. While the Commission believes that such a refinancing or restructuring outside of bankruptcy is achievable, these outcomes require political and other actions not within the control of the Commission. Accordingly, the outcome cannot be assured at this time.

See also Note S for discussion of a January 2009 Circuit Court ruling concerning occupational tax revenues.

REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	\$ 146,725	\$ 146,725	\$ 100,687	\$ 100,687
Licenses and permits	72,802	72,802	75,275	75,275
Intergovernmental	61,704	63,509	45,926	45,926
Charges for services, net	49,178	33,537	32,714	32,714
Miscellaneous	3,355	5,233	4,520	4,520
Interest and investment	2,008	2,034	4,068	4,068
	<u>335,772</u>	<u>323,840</u>	<u>263,190</u>	<u>263,190</u>
Expenditures				
Current:				
General government	226,435	225,850	152,777	152,777
Public safety	70,253	71,923	70,850	70,850
Highway and roads	43,939	34,485	26,603	26,603
Environmental services	591	2,129	1,275	1,275
Culture and recreation	14,406	21,946	15,287	15,287
Education - other	-	161	730	730
Capital outlay	-	2,291	10,083	10,083
Debt service:				
Interest and fiscal charges	-	-	213	213
	<u>355,624</u>	<u>358,785</u>	<u>277,818</u>	<u>277,818</u>
Deficiency of Revenues over Expenditures	(19,852)	(34,945)	(14,628)	(14,628)
Other Financing Sources (Uses)				
Sale of capital assets	252	-	803	803
Transfers in	14,000	15,332	9,145	9,145
Transfers out	(4,522)	(25,182)	(6,980)	(6,980)
	<u>9,730</u>	<u>(9,850)</u>	<u>2,968</u>	<u>2,968</u>
Net Changes in Fund Balances	(10,122)	(44,795)	(11,660)	(11,660)
Fund Balance - beginning of year, as restated	51,716	51,716	51,716	51,716
Fund Balance - end of year	\$ 41,594	\$ 6,921	\$ 40,056	\$ 40,056

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - INDIGENT CARE FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2007**

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	\$ 47,115	\$ 47,115	\$ 46,135	\$ 46,135
Miscellaneous	35	342	1,603	1,603
Interest and investment	-	-	34	34
	<u>47,150</u>	<u>47,457</u>	<u>47,772</u>	<u>47,772</u>
Other Financing Sources (Uses)				
Transfers in	-	-	374	374
Transfers out	<u>(47,150)</u>	<u>(47,822)</u>	<u>(47,514)</u>	<u>(47,514)</u>
	<u>(47,150)</u>	<u>(47,822)</u>	<u>(47,140)</u>	<u>(47,140)</u>
Net Changes in Fund Balances	-	(365)	632	632
Fund Balance - beginning of year, as restated	<u>7,322</u>	<u>7,322</u>	<u>7,322</u>	<u>7,322</u>
Fund Balance - end of year	<u>\$ 7,322</u>	<u>\$ 6,957</u>	<u>\$ 7,954</u>	<u>\$ 7,954</u>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
SEPTEMBER 30, 2007**

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

SUPPLEMENTARY INFORMATION

**JEFFERSON COUNTY COMMISSION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

ASSETS	Bridge and Public Building Fund	Community Development Fund	Capital Improvements Fund
Cash and investments	\$ -	\$ -	\$ -
Accounts receivable, net	-	-	14
Taxes receivable, net	39,043	-	-
Due from other governments	445	162	-
Loans receivable, net	-	890	-
Restricted assets	-	-	-
Advances due (to) from other funds	39,787	(2,266)	(17,780)
	<u>\$ 79,275</u>	<u>\$ (1,214)</u>	<u>\$ (17,766)</u>
 LIABILITIES AND FUND BALANCES			
Liabilities			
Accounts payable	\$ -	\$ 501	\$ 7,337
Deferred/unearned revenue	40,814	-	1,615
Accrued wages and benefits payable	-	52	-
Accrued interest payable	-	-	-
Estimated liability for compensated absences	-	8	-
Total Liabilities	40,814	561	8,952
Fund Balances			
Reserved for:			
Advances due from other funds	-	-	-
Petty cash	-	-	-
Debt service	-	-	-
Encumbrances	4	1,132	16,827
Loans receivable	-	-	-
Capital projects	-	-	-
Unreserved reported in:			
Special Revenue Funds	38,457	(2,907)	-
Capital Projects Fund	-	-	(43,545)
	<u>38,461</u>	<u>(1,775)</u>	<u>(26,718)</u>
	<u>\$ 79,275</u>	<u>\$ (1,214)</u>	<u>\$ (17,766)</u>

See independent auditors' report.

Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ 1	\$ -	\$ 1
-	388	-	-	-	402
-	-	-	-	-	39,043
-	-	78	534	-	1,219
-	-	5,651	-	-	6,541
83,844	-	-	-	-	83,844
(6,900)	(5,076)	(60)	(499)	66,525	73,731
<u>\$ 76,944</u>	<u>\$ (4,688)</u>	<u>\$ 5,669</u>	<u>\$ 36</u>	<u>\$ 66,525</u>	<u>\$ 204,781</u>
\$ -	\$ 465	\$ 112	\$ 158	\$ -	\$ 8,573
-	-	-	-	-	42,429
-	-	3	1	-	56
2,177	-	-	-	5,860	8,037
-	-	-	-	-	8
2,177	465	115	159	5,860	59,103
-	-	-	-	16,581	16,581
-	-	-	1	-	1
-	-	-	-	44,018	44,018
-	3,596	1,586	392	66	23,603
-	-	5,651	-	-	5,651
74,767	-	-	-	-	74,767
-	-	(1,683)	(516)	-	33,351
-	(8,749)	-	-	-	(52,294)
<u>74,767</u>	<u>(5,153)</u>	<u>5,554</u>	<u>(123)</u>	<u>60,665</u>	<u>145,678</u>
<u>\$ 76,944</u>	<u>\$ (4,688)</u>	<u>\$ 5,669</u>	<u>\$ 36</u>	<u>\$ 66,525</u>	<u>\$ 204,781</u>

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, 2007
(IN THOUSANDS)

	Bridge and Public Building Fund	Community Development Fund	Capital Improvements Fund
Revenues			
Taxes	\$ 38,421	\$ -	\$ -
Intergovernmental	729	2,657	95
Charges for services, net	-	-	-
Miscellaneous	-	-	-
Interest and investment	606	5	-
	<u>39,756</u>	<u>2,662</u>	<u>95</u>
Expenditures			
Current:			
General government	-	1,895	14,135
Public safety	-	-	-
Highway and roads	-	-	-
Health and welfare	-	1,698	-
Capital outlay	-	1	10,660
Debt service:			
Principal retirement	-	-	1,898
Interest and fiscal charges	-	-	400
	<u>-</u>	<u>3,594</u>	<u>27,093</u>
Excess (Deficiency) of Revenues over Expenditures	39,756	(932)	(26,998)
Other Financing Sources (Uses)			
Transfers in	-	-	31,836
Transfers out	(37,510)	-	(782)
	<u>(37,510)</u>	<u>-</u>	<u>31,054</u>
Net Changes in Fund Balances	2,246	(932)	4,056
Fund Balance - beginning of year, as previously reported	37,985	936	54,648
Fund Balance - Other Nonmajor Governmental Funds, beginning of year, as previously reported	-	-	-
Prior Period Adjustment - combine Other Nonmajor Governmental Funds with General Fund	-	-	-
Prior Period Adjustments - other	<u>(1,770)</u>	<u>(1,779)</u>	<u>(85,422)</u>
Fund Balance - beginning of year, as restated	<u>36,215</u>	<u>(843)</u>	<u>(30,774)</u>
Fund Balance - end of year	<u>\$ 38,461</u>	<u>\$ (1,775)</u>	<u>\$ (26,718)</u>

See independent auditors' report.

Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Debt Service Fund	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 38,421
-	-	563	2,162	1,634	7,840
-	293	-	546	-	839
-	-	242	14	-	256
4,270	-	50	4	5,456	10,391
<u>4,270</u>	<u>293</u>	<u>855</u>	<u>2,726</u>	<u>7,090</u>	<u>57,747</u>
-	-	555	-	-	16,585
-	-	-	2,639	-	2,639
-	303	-	-	-	303
-	-	108	-	-	1,806
11,876	3,970	-	15	-	26,522
-	-	-	-	23,725	25,623
4,410	-	-	-	16,519	21,329
<u>16,286</u>	<u>4,273</u>	<u>663</u>	<u>2,654</u>	<u>40,244</u>	<u>94,807</u>
(12,016)	(3,980)	192	72	(33,154)	(37,060)
-	14,112	61	-	37,510	83,519
-	-	-	-	(52,600)	(90,892)
-	14,112	61	-	(15,090)	(7,373)
<u>(12,016)</u>	<u>10,132</u>	<u>253</u>	<u>72</u>	<u>(48,244)</u>	<u>(44,433)</u>
-	(15,285)	3,925	705	116,084	198,998
-	-	-	-	-	(14,110)
-	-	-	-	-	14,110
<u>86,783</u>	<u>-</u>	<u>1,376</u>	<u>(900)</u>	<u>(7,175)</u>	<u>(8,887)</u>
<u>86,783</u>	<u>(15,285)</u>	<u>5,301</u>	<u>(195)</u>	<u>108,909</u>	<u>190,111</u>
<u>\$ 74,767</u>	<u>\$ (5,153)</u>	<u>\$ 5,554</u>	<u>\$ (123)</u>	<u>\$ 60,665</u>	<u>\$ 145,678</u>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Current Assets				
Cash and investments	\$ 660	\$ 99	\$ 1,677	\$ 2,436
Patient accounts receivable, net	-	1,497	-	1,497
Accounts receivable, net	79	-	13	92
Other receivables	-	-	27	27
Due to other governments	-	-	(1,300)	(1,300)
Inventories	-	91	-	91
Deferred charges - issuance costs	9	-	-	9
	<hr/>	<hr/>	<hr/>	<hr/>
Total Current Assets	748	1,687	417	2,852
Noncurrent Assets				
Restricted assets	371	-	7,276	7,647
Advances due from (to) other funds	(14,399)	(5,357)	(19,336)	(39,092)
Deferred charges - issuance costs	114	-	74	188
Capital assets:				
Depreciable assets, net	32,628	6,377	4,176	43,181
Nondepreciable assets	8,115	2,454	16,784	27,353
	<hr/>	<hr/>	<hr/>	<hr/>
	26,829	3,474	8,974	39,277
	<hr/>	<hr/>	<hr/>	<hr/>
	\$ 27,577	\$ 5,161	\$ 9,391	\$ 42,129

See independent auditors' report.

LIABILITIES AND NET ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Current Liabilities				
Accounts payable	\$ -	\$ 505	\$ -	\$ 505
Accrued wages and benefits payable	3	265	-	268
Accrued interest payable	-	-	20	20
Estimated claims liability	-	322	-	322
Estimated liability for compensated absences	-	272	-	272
Warrants payable	-	-	1,294	1,294
Unamortized premiums (discounts)	-	-	(6)	(6)
Less: Deferred loss on refunding	-	-	(43)	(43)
	<u>-</u>	<u>-</u>	<u>1,245</u>	<u>1,245</u>
Total Current Liabilities	3	1,364	1,265	2,632
Noncurrent Liabilities				
Warrants payable	-	-	5,806	5,806
Unamortized premiums (discounts)	-	-	(28)	(28)
Less: Deferred loss on refunding	-	-	(197)	(197)
	<u>-</u>	<u>-</u>	<u>5,581</u>	<u>5,581</u>
Estimated liability for landfill closure and postclosure care costs	5,839	-	-	5,839
Estimated liability for compensated absences	<u>-</u>	<u>232</u>	<u>-</u>	<u>232</u>
Total Liabilities	<u>5,842</u>	<u>1,596</u>	<u>6,846</u>	<u>14,284</u>
Net Assets				
Invested in capital assets, net of related debt	40,865	8,831	(5,128)	44,568
Restricted for:				
Debt service	-	-	7,276	7,276
Closure and postclosure care	371	-	-	371
Unrestricted	<u>(19,501)</u>	<u>(5,266)</u>	<u>397</u>	<u>(24,370)</u>
	<u>\$ 21,735</u>	<u>\$ 3,565</u>	<u>\$ 2,545</u>	<u>\$ 27,845</u>

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Operating Revenues				
Charges for services, net	\$ -	\$ 10,682	\$ -	\$ 10,682
Other operating revenue	1,124	32	917	2,073
	<u>1,124</u>	<u>10,714</u>	<u>917</u>	<u>12,755</u>
Operating Expenses				
Salaries	28	6,296	274	6,598
Employee benefits and payroll taxes	4	1,676	18	1,698
Materials and supplies	7	1,333	-	1,340
Utilities	9	909	28	946
Outside services	3	3,454	100	3,557
Office expenses	2	103	94	199
Depreciation	1,893	313	298	2,504
Closure and postclosure care	197	-	-	197
Miscellaneous	-	490	24	514
	<u>2,143</u>	<u>14,574</u>	<u>836</u>	<u>17,553</u>
Operating (Loss) Income	(1,019)	(3,860)	81	(4,798)
Nonoperating Revenues (Expenses)				
Interest expense, net	(757)	-	(264)	(1,021)
Interest revenue	30	-	451	481
Amortization of warrant related costs	(9)	-	(113)	(122)
Gain on sale or retirement of capital assets	501	-	-	501
	<u>(235)</u>	<u>-</u>	<u>74</u>	<u>(161)</u>
Operating Transfers				
Transfers in	-	4,200	-	4,200
Change in Net Assets	(1,254)	340	155	(759)
Net Assets - beginning of year, as previously reported	24,991	6,456	2,390	33,837
Net Assets - Parking Deck Fund - beginning of year, as previously reported	-	-	-	477
Prior Period Adjustment - Combine Parking Deck Fund with General Fund	-	-	-	(477)
Prior Period Adjustments - other	(2,002)	(3,231)	-	(5,233)
Net Assets - beginning of year, restated	22,989	3,225	2,390	28,604
Net Assets - end of year	\$ 21,735	\$ 3,565	\$ 2,545	\$ 27,845

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)**

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Cash Flows from Operating Activities				
Cash received from services	\$ 3	\$ 10,670	\$ 1,105	\$ 11,778
Cash payments to employees	(56)	(7,965)	(269)	(8,290)
Cash payments for goods and services	264	(5,827)	(362)	(5,925)
Other receipts and payments, net	(300)	1,462	-	1,162
Net Cash Provided (Used) by Operating Activities	(89)	(1,660)	474	(1,275)
Cash Flows from Noncapital Financing Activities				
Operating transfers in	-	4,200	-	4,200
Net Cash Provided by Noncapital Financing Activities	-	4,200	-	4,200
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	-	(2,478)	(1,593)	(4,071)
Sale of capital assets	746	-	-	746
Interest paid	(757)	-	(255)	(1,012)
Principal payments on warrants	-	-	(1,210)	(1,210)
Net Cash Used by Capital and Related Financing Activities	(11)	(2,478)	(3,058)	(5,547)
Cash Flows from Investing Activities				
Interest received	30	-	451	481
Miscellaneous	-	-	1,239	1,239
Net Cash Provided by Investing Activities	30	-	1,690	1,720
Increase (Decrease) in Cash and Investments	(70)	62	(894)	(902)
Cash and Investments - beginning of year	1,101	37	2,571	3,709
Cash and Investments - end of year	\$ 1,031	\$ 99	\$ 1,677	\$ 2,807
Displayed As				
Cash and investments	\$ 660	\$ 99	\$ 1,677	\$ 2,436
Restricted assets - noncurrent cash	371	-	-	371
	\$ 1,031	\$ 99	\$ 1,677	\$ 2,807

**JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2007
(IN THOUSANDS)
(Continued)**

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Other Enterprise Funds
Reconciliation of Operating Income (Loss) to Net Cash Provided (Used) by Operating Activities				
Operating income (loss)	\$ (1,019)	\$ (3,860)	\$ 81	\$ (4,798)
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities:				
Depreciation expense	1,893	313	298	2,504
Provision for bad debts	-	654	-	654
Change in patient accounts receivable	-	(667)	-	(667)
Change in accounts receivable	3	-	187	190
Change in other receivables	-	-	30	30
Change in advances due (to) from other funds	(1,424)	1,430	-	6
Change in inventories	-	(51)	-	(51)
Change in accounts payable	-	514	(122)	392
Change in accrued wages and benefits payable	-	9	-	9
Change in estimated liability for compensated absences	(23)	(2)	-	(25)
Change in liability for landfill closure and postclosure care costs	481	-	-	481
	<u>930</u>	<u>2,200</u>	<u>393</u>	<u>3,523</u>
Net Cash Provided (Used) by Operating Activities	<u>\$ (89)</u>	<u>\$ (1,660)</u>	<u>\$ 474</u>	<u>\$ (1,275)</u>
SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION				
Cash paid during the year for:				
Interest	<u>\$ 757</u>	<u>\$ -</u>	<u>\$ 264</u>	<u>\$ 1,021</u>
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain on sale or retirement of capital assets	<u>\$ 501</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 501</u>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION
 COMBINING STATEMENT OF FIDUCIARY NET ASSETS -
 AGENCY FUNDS
 SEPTEMBER 30, 2007
 (IN THOUSANDS)**

ASSETS	Storm Water Management Authority Fund	City of Birmingham Revolving Loan Fund	Total Agency Funds
Cash and investments	\$ 2,031	\$ 776	\$ 2,807
Loans receivable, net	-	102	102
	<u>\$ 2,031</u>	<u>\$ 878</u>	<u>\$ 2,909</u>
LIABILITIES			
Accounts payable and accrued expenses	\$ 81	\$ -	\$ 81
Due to external organizations	1,950	-	1,950
Due to other governments	-	878	878
	<u>\$ 2,031</u>	<u>\$ 878</u>	<u>\$ 2,909</u>

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUNDS
SEPTEMBER 30, 2007
(IN THOUSANDS)**

	Balance October 1, 2006	Additions	Deductions	Balance September 30, 2007
<u>Storm Water Management Authority Fund</u>				
Assets				
Cash and investments	\$ 1,772	\$ 259	\$ -	\$ 2,031
Liabilities				
Accounts payable and accrued expenses	\$ 68	\$ 13	\$ -	\$ 81
Due to external organizations	1,704	246	-	1,950
	<u>\$ 1,772</u>	<u>\$ 259</u>	<u>\$ -</u>	<u>\$ 2,031</u>
<u>City of Birmingham Revolving Loan Fund</u>				
Assets				
Cash and investments	\$ 664	\$ 163	\$ (51)	\$ 776
Loans receivable, net	160	65	(123)	102
	<u>\$ 824</u>	<u>\$ 228</u>	<u>\$ (174)</u>	<u>\$ 878</u>
Liabilities				
Due to other governments	\$ 824	\$ 228	\$ (174)	\$ 878
<u>Agency Fund Totals</u>				
Assets				
Cash and investments	\$ 2,436	\$ 422	\$ (51)	\$ 2,807
Loans receivable, net	160	65	(123)	102
	<u>\$ 2,596</u>	<u>\$ 487</u>	<u>\$ (174)</u>	<u>\$ 2,909</u>
Liabilities				
Accounts payable and accrued expenses	\$ 68	\$ 13	\$ -	\$ 81
Due to external organizations	1,704	246	-	1,950
Due to other governments	824	228	(174)	878
	<u>\$ 2,596</u>	<u>\$ 487</u>	<u>\$ (174)</u>	<u>\$ 2,909</u>

See independent auditors' report.

ADDITIONAL INFORMATION

**JEFFERSON COUNTY COMMISSION
COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL
SEPTEMBER 30, 2007**

Commission Members As of January 20, 2009			Term Expires
Hon. Bettye Fine Collins	President	Suite 220 Jefferson County Courthouse Birmingham, AL 35263	2010
Hon. William A. Bell	Member	Suite 240 Jefferson County Courthouse Birmingham, AL 35263	2010
Hon. Jim Carns	Member	Suite 230 Jefferson County Courthouse Birmingham, AL 35263	2010
Hon. Bobby Humphryes	Member	Suite 210 Jefferson County Courthouse Birmingham, AL 35263	2010
Hon. Sheila Smoot	Member	Suite 250 Jefferson County Courthouse Birmingham, AL 35263	2010

Administrative Personnel As of January 20, 2009		
Travis A. Hulsey	Finance Director	Room A100 Jefferson County Courthouse Birmingham, AL 35263
Jeffrey M. Sewell	County Attorney	Suite 280 Jefferson County Courthouse Birmingham, AL 35263