# JEFFERSON COUNTY COMMISSION

## AUDITED FINANCIAL STATEMENTS

## SEPTEMBER 30, 2013

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# INDEPENDENT AUDITORS' REPORT

August 28, 2014

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, 2013, and the related notes to the financial statements, which collectively comprise the Commission's basic financial statements as listed in the contents.

**Management's Responsibility for the Financial Statements**
Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statements that are free from material misstatement, whether due to fraud or error.

**Auditors' Responsibility**
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 position 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.

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 involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the Commission's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained and the report of the other auditors are sufficient and appropriate to provide a basis for our audit opinions.

**Basis for Qualified Opinions on Governmental Activities, Business Type Activities and Sanitary Operations Fund**

As discussed in Note E, we were unable to obtain a valuation of certain capital assets donated to the Commission related to infrastructure of new subdivisions, and we were unable to satisfy ourselves about the values of such donated assets through alternative procedures.

**Qualified Opinions**

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 "Basis for Qualified Opinions on Governmental Activities, Business Type Activities and Sanitary Operations Fund" paragraph, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities and the sanitary operations fund of the Jefferson County Commission as of September 30, 2013, the changes in financial position and, where applicable, the cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

**Unmodified Opinions**

In our opinion, based on our audit and the report of the other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of each major fund other than the sanitary operations fund and the aggregate remaining fund information of the Jefferson County Commission as of September 30, 2013, and the changes in financial position and, where applicable, the cash flows thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

**Uncertainties Regarding Bankruptcy**

The accompanying financial statements have been prepared assuming that the Commission will continue as a going concern. As discussed in Notes J, K and V to the financial statements, during the year ended September 30, 2009, and subsequent years, the Commission received Notices and Events of Default from indenture trustees and certain banks for certain debt obligations and was unable to meet its accelerated debt service obligations as they become due. In addition, as discussed in Note W to the financial statements, the Commission filed a petition for relief under Chapter 9 of the United States Bankruptcy Code on November 9, 2011, in the United States Bankruptcy Court for the Northern District of Alabama. The terms of certain warrants payable were restructured with the creditors through the Bankruptcy Plan of Adjustment (see below). Under the current Events of Default and potential cross defaults, these obligations would be due and payable on an accelerated basis at September 30, 2013. Therefore, the outstanding warrants payable and related accounts have been classified as current liabilities in the accompanying financial statements. As discussed in Note S, court rulings have resulted in the effective repeal of certain occupational taxes and business license fees, which have historically comprised significant revenues to the Commission.

It is not possible, at this time, to predict the ultimate outcome resulting from the loss of these revenues. These conditions raise substantial doubt about the Commission's ability to continue as a going concern. Management's plans regarding those matters are described in Notes U and W to the financial statements. These financial statements do not include any adjustments that result from the outcome of this uncertainty or transactions for the Plan of Adjustment.

To the Commissioners
Jefferson County Commission
August 28, 2014

As discussed in Notes U and W to the financial statements, the Commission has been granted relief under the provisions of Chapter 9 of the United States Bankruptcy Code. The Commission negotiated with creditors to restructure the Commission's outstanding obligations through a Chapter 9 plan of adjustment of debts and filed with the Bankruptcy Court its *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (dated July 19, 2013, as amended)* (the Plan of Adjustment). The Plan of Adjustment was confirmed by the Bankruptcy Court on November 22, 2013, and became effective on December 3, 2013. See Note W for further discussion of the Plan of Adjustment. Since the confirmation date occurred subsequent to year end, these financial statements do not include any adjustments or reclassifications that result from the consummation of the Plan of Adjustment or that might otherwise result from the Bankruptcy Case.

**Other Matters**

*Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the budgetary comparison information on pages 141 through 144 and the schedule of funding progress - defined benefit pension plan and other postemployment benefits plan (unaudited) on page 145 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

*Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Commission's basic financial statements. The combining and individual nonmajor fund financial statements, included in the supplementary information section, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America by us and the other auditors. In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the valuation of certain donated capital assets, as discussed previously, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Warren Averett, LLC

Birmingham, Alabama

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF NET POSITION**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| ASSETS | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Current Assets** | | | |
| Cash and investments | $ 171,554 | $ 31,194 | $ 202,748 |
| Patient accounts receivable, net | - | 561 | 561 |
| Estimated third-party payor settlements | - | (53) | (53) |
| Accounts receivable, net | 5,402 | 18,595 | 23,997 |
| Loans receivable, net | 2,373 | - | 2,373 |
| Taxes receivable, net | 135,732 | 4,978 | 140,710 |
| Other receivables | - | 1,939 | 1,939 |
| Due from other governments | 14,393 | 112 | 14,505 |
| Inventories | - | 825 | 825 |
| Prepaid expenses and other current assets | 1,932 | 132 | 2,064 |
| Deferred charges - issuance costs | 10,282 | 42,163 | 52,445 |
| Restricted assets - current | 173,918 | 245,914 | 419,832 |
| **Total Current Assets** | 515,586 | 346,360 | 861,946 |
| **Noncurrent Assets** | | | |
| Advances due from (to) other funds | 40,564 | (40,564) | - |
| Loans receivable, net | 20,250 | - | 20,250 |
| Restricted assets | 8,467 | 283 | 8,750 |
| Assets internally designated for capital improvements or redemption of warrants | - | 34,819 | 34,819 |
| Capital assets: | | | |
| Depreciable assets, net | 272,400 | 2,570,447 | 2,842,847 |
| Nondepreciable assets | 35,580 | 64,362 | 99,942 |
| | 377,261 | 2,629,347 | 3,006,608 |
| | $ 892,847 | $ 2,975,707 | $ 3,868,554 |

See notes to the financial statements.

| LIABILITIES AND NET POSITION | Governmental Activities | Business-Type Activities | Total |
|---|---|---|---|
| **Current Liabilities** | | | |
| Accounts payable | $ 16,994 | $ 13,916 | $ 30,910 |
| Deposits payable | 1,484 | - | 1,484 |
| Deferred/unearned revenue | 122,587 | 5,262 | 127,849 |
| Accrued wages and benefits | 2,713 | 990 | 3,703 |
| Accrued interest | 30,872 | 247,071 | 277,943 |
| Debt service costs | 7,894 | 105,684 | 113,578 |
| Retainage payable | 481 | 958 | 1,439 |
| Noncurrent liabilities - portion due or payable within one year: | | | |
| Capital lease obligations | 254 | 24 | 278 |
| Estimated liability for compensated absences | 7,171 | 1,838 | 9,009 |
| Estimated claims liability | 1,680 | 699 | 2,379 |
| Warrants payable | 1,000,645 | 3,107,518 | 4,108,163 |
| Add: Unamortized premiums | 27,518 | 5,902 | 33,420 |
| Less: Deferred loss on refunding | - | (247,718) | (247,718) |
| | 1,028,163 | 2,865,702 | 3,893,865 |
| **Total Current Liabilities** | 1,220,293 | 3,242,144 | 4,462,437 |
| **Noncurrent Liabilities** | | | |
| Capital lease obligations | 381 | 12 | 393 |
| Estimated liability for landfill closure and postclosure care costs | - | 10,985 | 10,985 |
| Estimated liability for other postemployment benefits | 8,248 | 2,945 | 11,193 |
| Estimated liability for compensated absences | 8,373 | 2,544 | 10,917 |
| Estimated litigation liability | 12,548 | - | 12,548 |
| Estimated claims liability | 2,834 | 1,340 | 4,174 |
| Warrants payable | - | - | - |
| **Total Liabilities** | 1,252,677 | 3,259,970 | 4,512,647 |
| **Net Position** | | | |
| Net investment in capital assets | 263,507 | (108,422) | 155,085 |
| Restricted for: | | | |
| Debt service or capital improvements | - | 32,158 | 32,158 |
| Debt service | 137,731 | 116,639 | 254,370 |
| Closure and postclosure care | - | 283 | 283 |
| Other purposes | 87,035 | - | 87,035 |
| Unrestricted | (848,103) | (324,921) | (1,173,024) |
| | $ (359,830) | $ (284,263) | $ (644,093) |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | | | Program Revenues | | Net (Expenses) Revenues and Changes in Net Position Primary Government | | |
|---|---|---|---|---|---|---|---|
| | Expenses | Indirect Expense Allocation | Charges for Services | Operating and Capital Grants and Contributions | Governmental Activities | Business-Type Activities | Total |
| **Primary Government** | | | | | | | |
| Governmental Activities: | | | | | | | |
| General government | $ 123,177 | $ (7,829) | $ 27,257 | $ 12,915 | $ (75,176) | $ - | $ (75,176) |
| Public safety | 55,505 | 351 | 1,676 | 1,557 | (52,623) | - | (52,623) |
| Highways and roads | 24,247 | - | - | 805 | (23,442) | - | (23,442) |
| Health and welfare | 20 | - | - | 742 | 722 | - | 722 |
| Interest and fiscal charges | 48,203 | - | - | - | (48,203) | - | (48,203) |
| **Total Governmental Activities** | 251,152 | (7,478) | 28,933 | 16,019 | (198,722) | - | (198,722) |
| Business-Type Activities: | | | | | | | |
| Cooper Green Hospital | 65,783 | 7,466 | 14,526 | 748 | - | (57,975) | (57,975) |
| Economic and Industrial Development Authority | 907 | - | - | - | - | (907) | (907) |
| Nursing Home operations | 4,875 | - | 1,300 | - | - | (3,575) | (3,575) |
| Landfill operations | 5,533 | 12 | - | - | - | (5,545) | (5,545) |
| Sanitary operations | 306,771 | - | 148,445 | - | - | (158,326) | (158,326) |
| **Total Business-Type Activities** | 383,869 | 7,478 | 164,271 | 748 | - | (226,328) | (226,328) |
| **Total Primary Government** | $ 635,021 | $ - | $ 193,204 | $ 16,767 | (198,722) | (226,328) | (425,050) |
| **General Revenues** | | | | | | | |
| Taxes: | | | | | | | |
| Property taxes | | | | | 97,041 | 5,712 | 102,753 |
| Sales tax | | | | | 171,364 | - | 171,364 |
| Other taxes | | | | | 29,622 | - | 29,622 |
| Licenses and permits | | | | | 11,201 | - | 11,201 |
| Unrestricted investment earnings | | | | | 673 | 12 | 685 |
| Miscellaneous | | | | | 6,167 | 17,475 | 23,642 |
| Transfers | | | | | (39,050) | 39,050 | - |
| **Total General Revenues and Transfers** | | | | | 277,018 | 62,249 | 339,267 |
| **Change in Net Position** | | | | | 78,296 | (164,079) | (85,783) |
| **Net Position - beginning of year** | | | | | (438,126) | (120,184) | (558,310) |
| **Net Position - end of year** | | | | | $ (359,830) | $ (284,263) | $ (644,093) |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**BALANCE SHEET -**
**GOVERNMENTAL FUNDS**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| ASSETS | General Fund | Limited Obligation School Fund | Indigent Care Fund | Bridge and Public Building Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| Cash and investments | $ 94,194 | $ - | $ - | $ 1,788 | $ 75,572 | $ 171,554 |
| Accounts receivable, net | 5,301 | - | - | - | 101 | 5,402 |
| Taxes receivable, net | 61,399 | 14,208 | 7,298 | 36,790 | - | 119,695 |
| Taxes receivable, net, highways and roads | - | - | - | - | 16,037 | 16,037 |
| Due from (to) other governments | 15,862 | - | - | 33 | (4,688) | 11,207 |
| Loans receivable, net | 1,444 | - | - | - | 929 | 2,373 |
| Prepaid expenses and other current assets | 1,932 | - | - | - | - | 1,932 |
| Restricted assets | 6,768 | 159,034 | 1,699 | - | 14,884 | 182,385 |
| Advances due from other funds | 24,016 | - | - | - | 16,548 | 40,564 |
| | $ 210,916 | $ 173,242 | $ 8,997 | $ 38,611 | $ 119,383 | $ 551,149 |
| **LIABILITIES AND FUND BALANCES** | | | | | | |
| **Liabilities** | | | | | | |
| Accounts payable | $ 15,689 | $ - | $ - | $ - | $ 1,305 | $ 16,994 |
| Deposits payable | 2 | - | - | - | 1,482 | 1,484 |
| Deferred/unearned revenue | 64,531 | - | - | 38,611 | 16,260 | 119,402 |
| Accrued wages and benefits | 2,647 | - | - | - | 66 | 2,713 |
| Accrued interest | - | 690 | - | - | 23,912 | 24,602 |
| Debt service costs | - | - | - | - | 7,894 | 7,894 |
| Retainage payable | 87 | - | - | - | 394 | 481 |
| Estimated liability for compensated absences | 6,903 | - | - | - | 268 | 7,171 |
| Estimated claims liability | 1,522 | - | - | - | 158 | 1,680 |
| **Total Liabilities** | 91,381 | 690 | - | 38,611 | 51,739 | 182,421 |
| **Fund Balances** | | | | | | |
| Nonspendable | 18,848 | - | - | - | 17,626 | 36,474 |
| Restricted | 6,768 | 172,552 | 8,997 | - | 19,052 | 207,369 |
| Committed | 4,415 | - | - | - | 1,159 | 5,574 |
| Assigned | 22,268 | - | - | - | 52,075 | 74,343 |
| Unassigned | 67,236 | - | - | - | (22,268) | 44,968 |
| | 119,535 | 172,552 | 8,997 | - | 67,644 | 368,728 |
| | $ 210,916 | $ 173,242 | $ 8,997 | $ 38,611 | $ 119,383 | $ 551,149 |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS**
**TO THE STATEMENT OF NET POSITION**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | | |
|---|---|---|
| **Total Fund Balances - Governmental Funds** | | $ 368,728 |
| Amounts reported for governmental activities in the statement of net position 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. | | 307,980 |
| Loans receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds. | | 20,250 |
| Deferred amounts related to premiums on long-term liabilities are not reported in the funds. | | (27,518) |
| Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds. | | 10,282 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. Those liabilities consist of: | | |
| Warrants payable | (1,000,645) | |
| Capital lease obligations | (635) | |
| Accrued interest | (6,269) | |
| Estimated liability for other postemployment benefits | (8,248) | |
| Estimated liability for compensated absences | (8,373) | |
| Estimated litigation liability | (12,548) | |
| Estimated claims liability | (2,834) | |
| Total long-term liabilities | | (1,039,552) |
| **Total Net Position - Governmental Activities** | | $ (359,830) |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**
**GOVERNMENTAL FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | General Fund | Limited Obligation School Fund | Indigent Care Fund | Bridge and Public Building Fund | Nonmajor Governmental Funds | Total Governmental Funds |
|---|---|---|---|---|---|---|
| **Revenues** | | | | | | |
| Taxes | $ 84,848 | $ 91,830 | $ 45,973 | $ 40,452 | $ 15,288 | $ 278,391 |
| Licenses and permits | 9,309 | - | - | - | 1,892 | 11,201 |
| Intergovernmental | 26,986 | - | - | 762 | 7,909 | 35,657 |
| Charges for services, net | 28,168 | - | - | - | 765 | 28,933 |
| Miscellaneous | 3,941 | - | 2 | - | 2,029 | 5,972 |
| Interest and investment income | 231 | 110 | - | 92 | 240 | 673 |
| | 153,483 | 91,940 | 45,975 | 41,306 | 28,123 | 360,827 |
| **Expenditures** | | | | | | |
| Current: | | | | | | |
| General government | 106,451 | 182 | - | - | 4,405 | 111,038 |
| Public safety | 53,722 | - | - | - | 1,673 | 55,395 |
| Highway and roads | 2,686 | - | - | - | 16,104 | 18,790 |
| Health and welfare | - | - | - | - | 20 | 20 |
| Capital outlay | 1,934 | - | - | - | 3,943 | 5,877 |
| Indirect expenses | (7,829) | - | - | - | 351 | (7,478) |
| Debt service: | | | | | | |
| Principal retirement | 217 | 55,450 | - | - | 4,355 | 60,022 |
| Interest and fiscal charges | 38 | 36,261 | - | - | 13,882 | 50,181 |
| | 157,219 | 91,893 | - | - | 44,733 | 293,845 |
| **Excess (Deficiency) of Revenues over Expenditures** | (3,736) | 47 | 45,975 | 41,306 | (16,610) | 66,982 |
| **Other Financing Sources (Uses)** | | | | | | |
| Sale of capital assets | 343 | - | - | - | 604 | 947 |
| Transfers in | 38,262 | - | 900 | - | 11,198 | 50,360 |
| Transfers out | (1,025) | - | (47,079) | (41,306) | - | (89,410) |
| | 37,580 | - | (46,179) | (41,306) | 11,802 | (38,103) |
| **Net Changes in Fund Balances** | 33,844 | 47 | (204) | - | (4,808) | 28,879 |
| **Fund Balances - beginning of year** | 85,691 | 172,505 | 9,201 | - | 72,452 | 339,849 |
| **Fund Balances - end of year** | $ 119,535 | $ 172,552 | $ 8,997 | $ - | $ 67,644 | $ 368,728 |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | | |
|---|---|---|
| **Net Changes in Fund Balances - Governmental Funds** | | $ 28,879 |
| Amounts reported for governmental activities in the statement of activities are different due to the following: | | |
| Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation ($15,429) exceeded capital outlays ($5,877) in the current period. | | (9,552) |
| Revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds: | | |
| Change in noncurrent portion of loans receivable | | (26) |
| Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net position. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net position. This is the amount by which repayments of principal exceeded amortization of debt-related items: | | |
| Amortization of bond premiums | 2,459 | |
| Amortization of bond issuance costs | (844) | |
| Repayments of principal - capital lease obligations | 217 | |
| Repayments of principal - warrants payable | 59,805 | 61,637 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds: | | |
| Decrease in noncurrent portion of accrued interest | 363 | |
| Increase in noncurrent portion of other postemployment benefits | (2,893) | |
| Decrease in noncurrent portion of compensated absences | 937 | |
| Decrease in noncurrent portion of estimated litigation liability | (490) | |
| Decrease in noncurrent portion of claims liability | 169 | (1,914) |
| Governmental funds report proceeds from the sale of capital assets as other financial sources. However, the statement of activities reports disposals, contributions and transfers of capital assets as gains or losses | | |
| Net book value of disposed capital assets | (728) | (728) |
| **Change in Net Position - Governmental Activities** | | $ 78,296 |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF NET POSITION -**
**PROPRIETARY FUNDS**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| ASSETS | Cooper Green Hospital Fund | Sanitary Operations Fund | Nonmajor Enterprise Funds | Total |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and investments | $ 16,396 | $ 10,191 | $ 4,607 | $ 31,194 |
| Patient accounts receivable, net | 557 | - | 4 | 561 |
| Accounts receivable, net | - | 18,249 | 346 | 18,595 |
| Other receivables | 1,939 | - | - | 1,939 |
| Estimated third-party payor settlements | (53) | - | - | (53) |
| Taxes receivable, net | - | 4,978 | - | 4,978 |
| Due from (to) other governments | - | 1,412 | (1,300) | 112 |
| Inventories | 804 | - | 21 | 825 |
| Prepaid expenses | 132 | - | - | 132 |
| Deferred charges - issuance costs | - | 42,163 | - | 42,163 |
| Restricted assets - current | - | 245,914 | - | 245,914 |
| **Total Current Assets** | 19,775 | 322,907 | 3,678 | 346,360 |
| **Noncurrent Assets** | | | | |
| Restricted assets | - | - | 283 | 283 |
| Assets internally designated for capital improvements or redemption of warrants | - | 34,819 | - | 34,819 |
| Advances due to other funds | (7,466) | - | (33,098) | (40,564) |
| Capital assets: | | | | |
| Depreciable assets, net | 19,089 | 2,526,212 | 25,146 | 2,570,447 |
| Nondepreciable assets | 1,078 | 42,820 | 20,464 | 64,362 |
| | 12,701 | 2,603,851 | 12,795 | 2,629,347 |
| | $ 32,476 | $ 2,926,758 | $ 16,473 | $ 2,975,707 |

See notes to the financial statements.

| LIABILITIES AND NET POSITION | Cooper Green Hospital Fund | Sanitary Operations Fund | Nonmajor Enterprise Funds | Total |
|---|---|---|---|---|
| **Current Liabilities** | | | | |
| Accounts payable | $ 9,813 | $ 4,056 | $ 47 | $ 13,916 |
| Accrued wages and benefits | 538 | 452 | - | 990 |
| Accrued interest | - | 247,071 | - | 247,071 |
| Debt service costs | - | 105,684 | - | 105,684 |
| Retainage payable | - | 958 | - | 958 |
| Deferred/unearned revenue | - | 5,262 | - | 5,262 |
| Estimated claims liability | 249 | 450 | - | 699 |
| Estimated liability for compensated absences | 631 | 1,207 | - | 1,838 |
| Current portion of capital lease obligations | 24 | - | - | 24 |
| Warrants payable | - | 3,107,518 | - | 3,107,518 |
| Add: Unamortized premiums (discounts) | - | 5,902 | - | 5,902 |
| Less: Deferred loss on refunding | - | (247,718) | - | (247,718) |
| | - | 2,865,702 | - | 2,865,702 |
| **Total Current Liabilities** | 11,255 | 3,230,842 | 47 | 3,242,144 |
| **Noncurrent Liabilities** | | | | |
| Warrants payable | - | - | - | - |
| Capital lease obligations | 12 | - | - | 12 |
| Estimated liability for landfill closure and postclosure care costs | - | - | 10,985 | 10,985 |
| Estimated claims liability | 449 | 891 | - | 1,340 |
| Estimated liability for other postemployment benefits | 1,079 | 1,866 | - | 2,945 |
| Estimated liability for compensated absences | 879 | 1,665 | - | 2,544 |
| **Total Liabilities** | 13,674 | 3,235,264 | 11,032 | 3,259,970 |
| **Net Position** | | | | |
| Net investment in capital assets | 20,131 | (157,390) | 28,837 | (108,422) |
| Restricted for: | | | | |
| Debt service or capital improvements | - | 32,158 | - | 32,158 |
| Debt service | - | 116,639 | - | 116,639 |
| Closure and postclosure care | - | - | 283 | 283 |
| Other purposes | - | - | - | - |
| Unrestricted | (1,329) | (299,913) | (23,679) | (324,921) |
| | $ 18,802 | $ (308,506) | $ 5,441 | $ (284,263) |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | Cooper Green Hospital Fund | Sanitary Operations Fund | Nonmajor Enterprise Funds | Total |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Taxes | $ - | $ 5,712 | $ - | $ 5,712 |
| Intergovernmental | - | 105 | - | 105 |
| Charges for services, net | 10,351 | 148,340 | 1,300 | 159,991 |
| Other operating revenue | 4,175 | 4,191 | 1,206 | 9,572 |
| | 14,526 | 158,348 | 2,506 | 175,380 |
| **Operating Expenses** | | | | |
| Salaries | 14,927 | 18,165 | 2,146 | 35,238 |
| Employee benefits and payroll taxes | 3,758 | 6,557 | 733 | 11,048 |
| Materials and supplies | 7,826 | 4,590 | 323 | 12,739 |
| Utilities | 2,012 | 7,916 | 595 | 10,523 |
| Outside services | 3,588 | 19,021 | 521 | 23,130 |
| Services from other hospitals | 12,311 | - | - | 12,311 |
| Jefferson Clinic | 5,176 | - | - | 5,176 |
| Office expenses | 276 | 1,519 | 144 | 1,939 |
| Depreciation | 1,335 | 132,734 | 2,369 | 136,438 |
| Loss on impairment of hospital | 14,562 | - | - | 14,562 |
| Closure and postclosure care | - | - | 2,772 | 2,772 |
| Indirect expenses | 7,466 | - | 12 | 7,478 |
| Miscellaneous | - | 67 | 724 | 791 |
| | 73,237 | 190,569 | 10,339 | 274,145 |
| **Operating Loss** | (58,711) | (32,221) | (7,833) | (98,765) |
| **Nonoperating Revenues (Expenses)** | | | | |
| Interest expense, net | (12) | (104,304) | (985) | (105,301) |
| Interest revenue | 6 | - | 6 | 12 |
| Grant income | 748 | - | - | 748 |
| Amortization of warrant related costs | - | (11,898) | (3) | (11,901) |
| Legal settlements | - | 3,412 | - | 3,412 |
| Gain on sale of certificates of need | - | - | 8,335 | 8,335 |
| Gain (loss) on contribution, sale or retirement of capital assets | - | (297) | 629 | 332 |
| | 742 | (113,087) | 7,982 | (104,363) |
| **Operating Transfers** | | | | |
| Transfers in | 46,179 | - | - | 46,179 |
| Transfers out | (900) | - | (6,229) | (7,129) |
| | 45,279 | - | (6,229) | 39,050 |
| **Change in Net Position** | (12,690) | (145,308) | (6,080) | (164,078) |
| **Net Position - beginning of year** | 31,492 | (163,198) | 11,521 | (120,185) |
| **Net Position - end of year** | $ 18,802 | $ (308,506) | $ 5,441 | $ (284,263) |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF CASH FLOWS -**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | Cooper Green Hospital Fund | Sanitary Operations Fund | Nonmajor Enterprise Funds | Total |
|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | |
| Cash received from services | $ 13,467 | $ 149,330 | $ 1,903 | $ 164,700 |
| Cash payments to employees | (20,822) | (23,860) | (3,331) | (48,013) |
| Cash payments for goods and services | (37,488) | (37,177) | (1,819) | (76,484) |
| Other receipts and payments, net | 7,178 | 9,733 | (3,355) | 13,556 |
| **Net Cash Provided (Used) by Operating Activities** | (37,665) | 98,026 | (6,602) | 53,759 |
| **Cash Flows from Noncapital Financing Activities** | | | | |
| Grant income | 748 | - | - | 748 |
| Legal settlements | - | 3,412 | - | 3,412 |
| Operating transfers in (out) | 45,279 | - | (6,229) | 39,050 |
| **Net Cash Provided (Used) by Noncapital Financing Activities** | 46,027 | 3,412 | (6,229) | 43,210 |
| **Cash Flows from Capital and Related Financing Activities** | | | | |
| Acquisition of capital assets | (13) | (13,158) | (4) | (13,175) |
| Repayment of capital lease obligations | (141) | - | - | (141) |
| Sale of capital assets and certificates of need | - | - | 11,287 | 11,287 |
| Interest paid | (12) | (25,076) | (989) | (26,077) |
| Principal payments on warrants | - | 1 | (415) | (414) |
| **Net Cash Provided (Used) by Capital and Related FinancingActivities** | (166) | (38,233) | 9,879 | (28,520) |
| **Cash Flows from Investing Activities** | | | | |
| Interest received | 6 | - | 6 | 12 |
| **Net Cash Provided by Investing Activities** | 6 | - | 6 | 12 |
| **Change in Cash and Investments** | 8,202 | 63,205 | (2,946) | 68,461 |
| **Cash and Investments - beginning of year** | 8,194 | 227,719 | 7,836 | 243,749 |
| **Cash and Investments - end of year** | $ 16,396 | $ 290,924 | $ 4,890 | $ 312,210 |
| **Displayed As** | | | | |
| Cash and investments | $ 16,396 | $ 10,191 | $ 4,607 | $ 31,194 |
| Restricted assets - current cash and investments | - | 245,914 | - | 245,914 |
| Restricted assets - noncurrent cash and investments | - | - | 283 | 283 |
| Assets internally designated for capital improvements or redemption of warrants - noncurrent cash | - | 34,819 | - | 34,819 |
| | $ 16,396 | $ 290,924 | $ 4,890 | $ 312,210 |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF CASH FLOWS -**
**PROPRIETARY FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**
**(Continued)**

| | Cooper Green Hospital Fund | Sanitary Operations Fund | Nonmajor Enterprise Funds | Total |
|---|---|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities** | | | | |
| Operating loss | $ (58,711) | $ (32,221) | $ (7,833) | $ (98,765) |
| Adjustments to reconcile operating loss to net cash provided (used) by operating activities: | | | | |
| Depreciation expense | 1,335 | 132,734 | 2,369 | 136,438 |
| Loss on impairment of hospital | 14,562 | - | - | 14,562 |
| Provision for bad debts | 2,970 | 1,145 | (67) | 4,048 |
| Change in patient accounts receivable | (98) | - | 597 | 499 |
| Change in accounts receivable | - | (561) | (65) | (626) |
| Change in other receivables | 2,462 | - | - | 2,462 |
| Change in estimated third-party payor settlements | 244 | - | - | 244 |
| Change in taxes receivable, net | - | 86 | - | 86 |
| Change in due from (to) other governments | - | 406 | - | 406 |
| Change in inventories | 175 | - | (19) | 156 |
| Change in prepaid expenses | (99) | - | - | (99) |
| Change in advances due to other funds | 540 | - | (1,369) | (829) |
| Change in accounts payable | 2,016 | (4,064) | (205) | (2,253) |
| Change in accrued wages and benefits | (183) | 70 | (46) | (159) |
| Change in retainage payable | - | (216) | - | (216) |
| Change in deferred/unearned revenue | - | (144) | - | (144) |
| Change in estimated claims liability | (925) | 11 | (174) | (1,088) |
| Change in estimated liability for compensated absences | (1,339) | 10 | (179) | (1,508) |
| Change in estimated liability for landfill closure and postclosure care costs | - | - | 616 | 616 |
| Change in estimated liability for other postemployment benefits | (614) | 770 | (227) | (71) |
| | 21,046 | 130,247 | 1,231 | 152,524 |
| **Net Cash Provided (Used) by Operating Activities** | $ (37,665) | $ 98,026 | $ (6,602) | $ 53,759 |
| **SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES** | | | | |
| Loss on retirement of capital assets | $ - | $ (297) | $ - | $ (297) |

See notes to the financial statements.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF FIDUCIARY NET POSITION -**
**AGENCY FUND**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| ASSETS | Agency Fund |
|---|---|
| **Current Assets** | |
| Cash and investments | $ 934 |
| Loans receivable, net | 119 |
| | $ 1,053 |
| **LIABILITIES** | |
| Due to other governments | $ 1,053 |

See notes to the financial statements.

## NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Jefferson County Commission (the Commission) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to governmental units, except that management has not capitalized certain donated capital assets or included related current disclosures due to the lack of available information. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

### Reporting Entity

The Commission is a general purpose local government governed by five separately elected commissioners. The accompanying financial statements present the activities of the Jefferson County Commission (the primary government) and its component units, as required by GAAP. Component units are legally separate entities for which a primary government is financially accountable. Financial accountability is generally defined as the appointment of a voting majority of the component unit's governing body and either (a) the Commission's ability to impose its will on the component unit's governing body or (b) the possibility that the component unit will provide a financial benefit to or impose a financial burden on the Commission. Based on the application of the above criteria, the financial position and results of operations for the Jefferson County Public Building Authority (the Building Authority) and the Jefferson County Economic and Industrial Development Authority (the Development Authority) have been included in the accompanying financial statements as blended component units, which are defined as legally separate entities that exist solely to provide services exclusively to the Commission. Complete financial information of the Building Authority and the Development Authority may be reviewed at the Jefferson County Courthouse, Finance Department, Room 810, Birmingham, Alabama.

### Government-Wide and Fund Financial Statements

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

#### *Government-Wide Financial Statements*

The statement of net position 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.

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

These statements distinguish between the governmental and business-type activities of the Commission. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business-type activities are financed in whole or in part by fees charged to external parties.

The statement of activities presents a comparison between program revenues and direct expenses for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. During 2013, indirect expenses were allocated to the various functions using different bases, as deemed appropriate for the individual expense.

### *Fund Financial Statements*

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

### Measurement Focus, Basis of Accounting and Financial Statement Presentation

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

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

Under the terms of grant agreements, the Commission funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net position 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.

**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.

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, county sales taxes and revenues collected by the State of Alabama and shared with the Commission.
- *Limited Obligation School Fund* - This fund is used to account for the sales tax collected for the payment of principal and interest on the Limited Obligation School Warrants.
- *Indigent Care Fund* - This fund is used to account for the expenditure of beverage and sales taxes designated for indigent residents of Jefferson County (the County).
- *Bridge and Public Building Fund* - This fund is used to account for the expenditure of special County property taxes for building and maintaining public buildings, roads and bridges.

Other nonmajor governmental funds are as follows:

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

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

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

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

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

Other nonmajor enterprise funds are as follows:

- *Landfill Operations Fund* - This fund is used to account for the operations of the Commission's landfill systems. Revenues are generated primarily through user charges and lease payments from a third-party lessee.
- *Jefferson Rehabilitation and Health Center Fund* - This fund is used to account for the operations of in-patient nursing facilities. Net revenues are received from patient charges and reimbursements from third parties, principally Medicaid.
- *Jefferson County Economic and Industrial Development Authority* - This fund is used to account for the operations of the Jefferson County Economic and Industrial Development Authority. This authority was incorporated in 1995 to engage in the solicitation and promotion of industry and industrial development and to induce industrial and commercial enterprises to locate, expand or improve their operations or remain in Jefferson County.

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

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

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

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

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

***Receivables***
All trade, property tax, loans and patient receivables are shown net of an allowance for uncollectible amounts. Allowances for doubtful accounts are estimated based on historical write-off percentages. Doubtful accounts are written off against the allowance after adequate collection effort is exhausted and are 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 Blue Shield, Medicare and Medicaid) are based on contractual agreements, which generally result in collecting less than the established rates.

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

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 | $ 12,607,000 |
| Allowance accounts | 12,046,000 |
| Net patient receivables | $ 561,000 |

Allowances for uncollectible accounts on accounts receivable totaled $27,230,494 and allowances on due from other governments totaled $3,376,000 at September 30, 2013.

In previous fiscal years, the Commission issued long-term loans with original balances of $16,929,000 to the City of Fultondale (maturity on April 1, 2016, with three-percent interest rate, payable annually) and $5,972,000 to local contractors for special needs housing developments within the County (maturities ranging from September 2017 to November 2039 with interest rates ranging from zero to two percent, payable at maturity). These loans totaled $20,292,699 (net of an allowance of $1,179,750) at September 30, 2013.

The Commission issues long-term loans through the Community Development Office for house repairs of low and moderate-income homeowners and for firms that may not have access to sufficient long-term capital financing. These loans totaled $1,025,054 at September 30, 2013.

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, 2013, the balance of these loans receivable for the City of Birmingham totaled $119,000, which is presented in the statement of fiduciary net position.

Other miscellaneous loans were issued by the Commission with varying maturities and interest rates. These loans totaled $1,305,005 (net of an allowance of $332,183) at September 30, 2013.

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

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

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

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

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

***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 position because they are maintained in separate bank accounts, and their use is limited by applicable bond agreements. Also, various amounts are classified as restricted because they are limited by warrant documents for the construction on various ongoing projects or improvements.

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

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

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

The Commission capitalizes interest cost incurred on funds used to construct property, equipment and infrastructure assets. Interest capitalization ceases when the construction project is substantially complete.

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

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 2013 amounted to $693,029.

Capital assets are reviewed for impairment in accordance with the methodology prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The Commission has recorded a capital asset impairment of approximately $14,562,000 at September 30, 2013, related to the change in use of Cooper Green Mercy Health Services from a hospital to an outpatient clinic.

***Transactions between Funds***

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

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

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

***Estimated Claims Liabilities***

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

***Warrants Payable***

In the government-wide financial statements and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities or proprietary fund type statement of net position. 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.

The Commission received Notices of Events of Default from the Trustee(s) on certain warrant obligations under the terms of the related trust indenture(s). In addition, pursuant to its agreements with certain Liquidity Providers, certain Series Warrants are payable on an accelerated schedule. See Note J – Warrants Payable for a discussion of the Events of Default regarding the warrant agreements and the specific series of warrants where the payments have been accelerated. The defaults were included in the bankruptcy Plan of Adjustment. See Note L – Issuance of New Warrants, Note V - Subsequent Events and Note W - Bankruptcy and Restructuring.

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

The Commission entered into several interest rate swap agreements in prior years in relation to the warrant agreements. All such agreements were terminated prior to September 30, 2013. As a result, the estimated termination fees plus any related accrued interest (which represents the estimated fair value at the termination date) have been accrued and are included as a liability in the accompanying financial statements. The termination fees and related interest were settled subsequent to year end with the bankruptcy Plan of Adjustment. See Note K - Derivatives/Interest Rate Swap Agreements and Note W - Bankruptcy and Restructuring.

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

***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.

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

Maximum limitations of accumulated compensatory time are as follows:

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

Any employee's accrual of overtime in excess of the maximum limitation shall, within the following pay period, be disposed of by either (a) payment at the current hourly pay rate of the employee or (b) granting equivalent time off. The Commission uses the vesting method to accrue its sick leave liability. Under this method, an accrual for earned sick leave is based on the sick leave accumulated at September 30 each year by those employees who currently are eligible to receive termination payments, as well as other employees who are expected to become eligible in the future to receive such payments, reduced to the maximum amount allowed as a termination payment.

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

As of September 30, 2013, the liability for accrued vacation and compensatory leave included in the government-wide statement of net position is approximately $13,605,000 of which $10,093,000 is reported in the governmental activities and $3,512,000 is reported in the business-type activities. Of this amount, an estimated $8,703,000 is payable within a year.

As of September 30, 2013, the liability for accrued sick leave included in the government-wide statement of net position is approximately $6,321,000. Of this amount, $5,451,000 is reported in the governmental activities and $870,000 is reported in the business-type activities. Of this amount, an estimated $306,000 is payable within a year.

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

***Net Position/Fund Balances***
Net position is reported on the government-wide and proprietary fund financial statements and is required to be classified for accounting and reporting purposes into the following net asset categories:

- *Net investment in capital assets* - 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 position balances by external creditors, grantors, contributors, laws or regulations of other governments or law through constitutional provision or enabling legislation.
- *Unrestricted* - Net position balances that are not subject to externally imposed stipulations. Unrestricted net position may be designated for specific purposes by action of the Commission.

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

Fund balances are reported in the fund financial statements. Fund balances are reported in classifications that comprise a hierarchy based primarily on the extent to which the government is bound to honor constraints on the specific purposes for which amounts in those funds can be spent. Amounts are reported as nonspendable, restricted, committed, assigned or unassigned, as follows:

- *Nonspendable* **-** Items that cannot be spent. This includes activity that is not in a spendable form (inventories, prepaid amounts or long-term portions of loans or notes receivable) and activity that is legally or contractually required to remain intact, such as a principal balance in a permanent fund.
- *Restricted* **-** Constraints are placed upon the use of the resources either by an external party or imposed by law through a constitutional provision or enabling legislation.
- *Committed* **-** Items can be used only for specific purposes pursuant to constraints imposed by a formal action of the Commissioners. This formal action is the passage of a resolution specifying the purposes for which amounts can be used. The same type of formal action is necessary to remove or change the specified use.
- *Assigned* **-** Constraints are placed upon the use of the resources by a responsible official's request for a specific purpose but are neither restricted nor committed. For governmental fund types other than the General Fund, this is the residual amount within the fund that is not restricted or committed.
- *Unassigned* **-** The residual amount of the General Fund that is not included in the four categories above. Also, any deficit fund balances within the other governmental fund types are reported as unassigned.

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

### Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to 2013 presentation. Such reclassifications had no material effect on the previously reported financial position or changes in fund balance. Management determined a change in accounting policy for its fiscal year 2013 financial reporting of certain restricted road taxes. The change resulted in the reporting of these legally restricted road taxes in a special revenue fund for 2013, rather than in the Commission's general fund, as reported in prior years.

### Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through August 28, 2014, the date the financial statements were available to be issued. See Note L for new warrants issued subsequent to year end, Note V for subsequent event disclosures and Note W for an update on the bankruptcy and restructuring.

## NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

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

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

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

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

**Deficit Fund Balances/Net Position of Individual Funds**
At September 30, 2013, the Sanitary Operations Fund had a deficit fund balance of $308,506,000.

## NOTE C - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

In November 2010, the GASB issued Statement No. 61, *The Financial Reporting Entity: Omnibus*, which is effective for the Commission for the year ended September 30, 2013. This statement improves financial reporting for governmental organizations to better meet user needs and address current reporting entity issues. This statement modifies certain requirements for inclusion of component units in the financial reporting entity and also amends the criteria for reporting component units as if they were part of the primary government in certain circumstances. The adoption of this statement did not have a material impact on the Commission's financial statements.

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

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

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

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

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

In June 2012, the GASB issued Statements No. 67, *Financial Reporting for Pension Plans*, and No. 68, *Accounting and Financial Reporting for Pensions*, which are effective for the Commission beginning with the fiscal years ending September 30, 2014 and 2015, respectively. These statements were issued to improve financial reporting by state and local governmental pension plans. GASB Statement No. 67 replaces the requirements of GASB Statements No. 25, *Financial Reporting for Defined Benefit Pension Plans and Note Disclosures for Defined Contribution Plans,* and No. 50, *Pension Disclosures*. GASB Statement No. 68 replaces the requirements of GASB Statement No. 27, *Accounting for Pensions by State and Local Governmental Employers*. The effect of the implementation of these statements on the Commission's financial statements has not been determined.

## NOTE C - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

In January 2013, the GASB issued Statement No. 69, *Government Combinations and Disposals of Government Operations,* which is effective for the Commission beginning with the fiscal year ending September 30, 2015. This statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. The term *government combinations* includes a variety of transactions referred to as mergers, acquisitions and transfers of operations. A disposal of a government's operations results in the removal of specific activities of a government. This statement provides guidance for disposals of government operations that have been transferred or sold. This statement also requires additional disclosures to be made about government combinations and disposals of government operations to enable financial statement users to evaluate the nature and financial effects of those transactions. The effect of the implementation of this statement on the Commission's financial statements has not been determined.

In April 2013, the GASB issued Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, which is effective for the Commission beginning with the fiscal year ending September 30, 2014. The objective of this statement is to improve accounting and financial reporting by state and local governments that extend and receive nonexchange financial guarantees. This statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data indicate that it is more likely than not that the government will be required to make a payment on the guarantee. This statement also provides additional guidance for intra-entity nonexchange financial guarantees involving blended component units. This statement specifies the information required to be disclosed by governments that extend nonexchange financial guarantees. The effect of the implementation of this statement on the Commission's financial statements has not been determined.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to Measurement Date*, which is an amendment of GASB Statement No. 68 and is effective simultaneously with the provisions of Statement No. 68. The objective of this Statement is to improve accounting and financial reporting by addressing an issue in Statement No 68, *Accounting and Financial Reporting for Pensions*, concerning transition provisions related to certain pension contributions made to defined benefit pension plans prior to implementation of that Statement by employers and nonemployer contributing entities. This Statement amends paragraph 137 of Statement No. 68. At the beginning of the period in which the provisions of Statement No. 68 are adopted, there may be circumstances in which it is not practical for a government to determine the amounts of all applicable deferred inflows of resources and deferred outflows of resources related to pensions. In such circumstances, the government should recognize a beginning deferred outflow of resources only for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability but before the start of the government's fiscal year. Additionally, in those circumstances, no beginning balances for the deferred outflows of resources and deferred inflows of resources related to pensions should be recognized. The effect of the implementation of this statement on the Commission's financial statements has not been determined.

## NOTE D - DEPOSITS AND INVESTMENTS

### Deposits

***Custodial Credit Risk***

The custodial credit risk for deposits is the risk that, in the event of a bank failure, the Commission will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The Commission's deposits at year end were insured by the Federal Deposit Insurance Corporation (FDIC) or protected under the Security for Alabama Funds Enhancement Program (SAFE Program). The SAFE Program was established by the Alabama Legislature and is governed by the provisions contained in the *Code of Alabama 1975*, Sections 41-14A-1 through 41-14A-14. Under the SAFE Program, all public funds are protected through a collateral pool administered by the Alabama State Treasurer's Office.

Under this program, financial institutions holding deposits of public funds must pledge securities as collateral against those deposits. In the event of failure of a financial institution, securities pledged by that financial institution would be liquidated by the State Treasurer to replace the public deposits not covered by the FDIC. If the securities pledged fail to produce adequate funds, every institution participating in the pool would share the liability for the remaining balance.

### Investments

As of September 30, 2013, 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 | 171,205 | 10,775 | 181,980 |
| Cash and investments | 249 | 20,413 | 20,662 |
| Assets internally designated for capital improvements or redemption of warrants | - | 34,819 | 34,819 |
| Restricted assets held for: | | | |
| Closure and postclosure care | - | 283 | 283 |
| Retainage | 1,892 | - | 1,892 |
| Debt service | 140,002 | 116,639 | 256,642 |
| Capital improvements | 32,110 | 99,549 | 131,658 |
| Debt service or capital improvements | - | 29,727 | 29,727 |
| Other purposes | 8,381 | - | 8,381 |
| Total restricted assets | 182,385 | 246,198 | 428,583 |
| Total cash and investments | $ 353,939 | $ 312,211 | $ 666,150 |

## NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2013, the Commission had the following deposits and investments:

| | (In Thousands) | | |
|---|---|---|---|
| | Governmental Activities | Business-Type Activities | Total |
| Cash and cash equivalents | $ 347,131 | $ 114,769 | $ 461,900 |
| Investments: | | | |
| U.S. Government obligations | 4,882 | 21,561 | 26,443 |
| Collateralized mortgage obligations | 11 | 370 | 381 |
| Mortgage-backed securities | 23 | 1,240 | 1,263 |
| Guaranteed investment contracts | - | 814 | 814 |
| Fixed income money market mutual funds | - | 173,457 | 173,457 |
| Total investments | 4,916 | 197,442 | 202,358 |
| Restricted assets held for retainage | 1,892 | - | 1,892 |
| | $ 353,939 | $ 312,211 | $ 666,150 |

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 $1,892,000, are included as part of restricted assets in the accompanying statement of net position and are not included in investments discussed below. They are not covered by collateral agreements between financial institutions and the Commission, and the terms of collateralization agreements between the contractors and the financial institutions are not known at this time.

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

As of September 30, 2013, the Commission’s investments had the following maturities (in thousands):

| | | Investment Maturities (in Years) | | | |
|---|---|---|---|---|---|
| | Fair Value | Less than 1 | 1-5 | 6-10 | Thereafter |
| U.S. Government obligations | $ 26,443 | $ 9,715 | $ 10,131 | $ 6,597 | $ - |
| Collateralized mortgage obligations | 381 | 81 | 54 | 242 | 4 |
| Mortgage-backed securities | 1,263 | - | 393 | 265 | 605 |
| Guaranteed investment contracts | 814 | 814 | - | - | - |
| Fixed income money market mutual funds | 173,457 | 173,457 | - | - | - |
| | $ 202,358 | $ 184,067 | $ 10,578 | $ 7,104 | $ 609 |

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

***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 position.

***Concentration of Credit Risk***
The Commission's investment policy generally does not allow for an investment in any one issuer that is in excess of five percent of the total investments. There were no investments with a balance greater than five percent of total investments at September 30, 2013.

***Custodial Credit Risk***
Custodial credit risk is the risk that an entity will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party if the counterparty fails. Statutes authorize the Commission to invest in obligations of the U.S. Treasury and federal agency securities, along with certain prerefunded public obligations, such as bonds or other obligations of any state of the United States of America or any agency, instrumentality or local governmental unit of any such state.

State law requires that prerefunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state in which the Commission invests, be rated in the highest rating category of Standard & Poor’s Ratings Services (S&P) and Moody’s Investors Service, Inc. (Moody’s). As of September 30, 2013, 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 $202,358,000 in investments at September 30, 2013, $29,795,000 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, 2013

## NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2013, was as follows:

| | (In Thousands) | | | | |
|---|---|---|---|---|---|
| **Governmental Activities** | **Balance at October 1, 2012** | **Additions** | **Disposals** | **Transfers/ Reclassifications** | **Balance at September 30, 2013** |
| Nondepreciable capital assets: | | | | | |
| Land | $ 20,450 | $ - | $ (534) | $ - | $ 19,916 |
| Construction in progress | 12,771 | 3,441 | (175) | (373) | 15,664 |
| | 33,221 | 3,441 | (709) | (373) | 35,580 |
| Depreciable capital assets: | | | | | |
| Buildings | 403,949 | - | - | - | 403,949 |
| Improvements other than land/buildings | 164,946 | 20 | - | 108 | 165,074 |
| Maintenance equipment | 6,414 | 101 | - | - | 6,515 |
| Motor vehicle (nonfleet) | 15,771 | 30 | (1,286) | - | 14,515 |
| Motor vehicle (fleet) | 37,056 | 1,540 | (758) | - | 37,838 |
| Equipment under capital lease | 13,847 | - | - | - | 13,847 |
| Miscellaneous equipment | 43,633 | 745 | (68) | 265 | 44,575 |
| Office furniture and fixtures | 1,213 | - | - | - | 1,213 |
| | 686,829 | 2,436 | (2,112) | 373 | 687,526 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (204,131) | (6,524) | - | - | (210,655) |
| Improvements other than land/buildings | (88,100) | (6,164) | (16) | - | (94,280) |
| Maintenance equipment | (7,446) | (50) | 0 | - | (7,496) |
| Motor vehicle (nonfleet) | (14,884) | (196) | 1,286 | - | (13,794) |
| Motor vehicle (fleet) | (36,439) | (384) | 756 | - | (36,067) |
| Equipment under capital lease | (13,846) | - | - | - | (13,846) |
| Miscellaneous equipment | (35,972) | (2,062) | 67 | - | (37,967) |
| Office furniture and fixtures | (972) | (49) | - | - | (1,021) |
| | (401,790) | (15,429) | 2,093 | - | (415,126) |
| Total depreciable capital assets, net | 285,039 | (12,993) | (19) | 373 | 272,400 |
| Total capital assets, net | $ 318,260 | $ (9,552) | $ (728) | $ - | $ 307,980 |

## NOTE E - CAPITAL ASSETS - Continued

(In Thousands)

| Business-Type Activities | Balance at October 1, 2012 | Additions | Disposals/ Impairment | Transfers/ Reclassifications | Balance at September 30, 2013 |
|---|---|---|---|---|---|
| Nondepreciable capital assets: | | | | | |
| Land | $ 43,933 | $ - | $ - | $ - | $ 43,933 |
| Construction in progress | 20,564 | 10,593 | (288) | (10,440) | 20,429 |
| | 64,497 | 10,593 | (288) | (10,440) | 64,362 |
| Depreciable capital assets: | | | | | |
| Buildings | 1,119,346 | 13 | (14,769) | 104,790 | 1,209,380 |
| Improvements other than land/buildings | 3,348,395 | 699 | (3,398) | (94,350) | 3,251,346 |
| Maintenance equipment | 6,979 | - | (523) | - | 6,456 |
| Motor vehicle (nonfleet) | 4,808 | 163 | - | - | 4,971 |
| Motor vehicle (fleet) | 15,355 | 1,511 | (221) | - | 16,645 |
| Equipment under capital lease | 2,478 | - | - | - | 2,478 |
| Miscellaneous equipment | 20,178 | 198 | (8) | - | 20,368 |
| Office furniture and fixtures | 8,098 | - | (186) | - | 7,912 |
| | 4,525,637 | 2,584 | (19,105) | 10,440 | 4,519,556 |
| Less accumulated depreciation for: | | | | | |
| Buildings | (361,893) | (25,658) | 1,360 | (982) | (387,173) |
| Improvements other than land/buildings | (1,402,722) | (108,288) | 589 | 982 | (1,509,439) |
| Maintenance equipment | (5,923) | (45) | 523 | - | (5,445) |
| Motor vehicle (nonfleet) | (4,487) | (130) | - | - | (4,617) |
| Motor vehicle (fleet) | (12,311) | (1,238) | 221 | - | (13,328) |
| Equipment under capital lease | (2,147) | (99) | (223) | - | (2,469) |
| Miscellaneous equipment | (17,359) | (968) | (439) | - | (18,766) |
| Office furniture and fixtures | (8,043) | (12) | 183 | - | (7,872) |
| | (1,814,885) | (136,438) | 2,214 | - | (1,949,109) |
| Total depreciable capital assets, net | 2,710,752 | (133,854) | (16,891) | 10,440 | 2,570,447 |
| Total capital assets, net | $ 2,775,249 | $ (123,261) | $ (17,179) | $ - | $ 2,634,809 |

On December 31, 2012, the inpatient care unit was closed, and Cooper Green Mercy Hospital began operating as Cooper Green Mercy Health Services (Cooper Green), which now provides care on an outpatient clinic basis. The Commission now contracts with area hospitals to provide inpatient hospital services for the indigent population. Cooper Green is still operating in the hospital building, but certain areas of the hospital building are no longer being used. Accordingly, the Commission evaluated the impairment of Cooper Green’s capital assets and recorded an impairment loss of approximately $14,562,000 for the year ended September 30, 2013, which is presented as a separate line in operating expense in the accompanying statement of activities.

## NOTE E - CAPITAL ASSETS - Continued

The net book value of landfill operations capital assets leased to a third party at September 30, 2013, is $29,362,598. See Note H for discussion of the operating lease.

A valuation of certain capital assets donated to the Commission in prior years related to infrastructure of new subdivisions was not available as of the date of this report. These capital assets are not included in the accompanying financial statements.

During 2011, the Commission authorized the sale of its nursing home facility. The Commission executed the sale of its real property to an unrelated entity for $2,950,000. A gain of approximately $630,000 was recognized in the accompanying statement of activities.

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

| | (In Thousands) |
|---|---|
| Governmental activities: | |
| General government | $ 9,863 |
| Public safety | 110 |
| Highways and roads | 5,456 |
| Total depreciation expense - governmental activities | $ 15,429 |
| Business-type activities: | |
| Cooper Green Health Services | $ 1,335 |
| Jefferson Rehabilitation and Health Center | 242 |
| Landfill Operations | 1,831 |
| Sanitary Operations | 132,734 |
| Industrial Development Authority | 296 |
| Total depreciation expense - business-type activities | $ 136,438 |

## 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, 2013, the various components of deferred revenue and unearned revenue reported in the governmental funds and proprietary funds were as follows:

| | (In Thousands) | | |
|---|---|---|---|
| | **Unavailable** | **Unearned** | **Total** |
| Ad valorem taxes - property | $ 112,929 | $ - | $ 112,929 |
| Ad valorem taxes - other | - | 4,866 | 4,866 |
| Grant-related reimbursements | 7,791 | - | 7,791 |
| Business privilege tax | 2,263 | - | 2,263 |
| Total deferred/unearned revenue | $ 122,983 | $ 4,866 | $ 127,849 |

## 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, 2013, amounts paid by the Commission totaled approximately $3,565,000 for governmental activities and $559,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2013, are as follows:

| | (In Thousands) | | |
|---|---|---|---|
| **Year Ending September 30,** | **Facilities** | **Equipment** | **Total** |
| 2014 | $ 4,002 | $ 1,417 | $ 5,419 |
| 2015 | 4,937 | - | 4,937 |
| 2016 | 4,780 | - | 4,780 |
| 2017 | 5,175 | - | 5,175 |
| 2018 | 5,175 | - | 5,175 |
| 2019-2022 | 20,698 | - | 20,698 |
| | $ 44,767 | $ 1,417 | $ 46,184 |

## NOTE G - LEASE OBLIGATIONS - Continued

### Capital Lease Obligations

On April 26, 2011, the Commission entered into a lease agreement to acquire a tax collection software solution at a cost of $1,213,000. The lease 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 tax collection software lease, the Commission is required to make monthly payments of $21,240. 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 $2,478,000. These lease agreements qualify as capital leases for accounting purposes and have been recorded in the Cooper Green Hospital Fund at the present value of the minimum lease payments as of the inception date of the leases. Under the terms of the leases, the Commission is required to make monthly payments totaling $46,150. Amortization of the capital leases is included in depreciation expense for the fund. These capital leases were paid off during the year ended September 30, 2013. The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2013, are as follows:

| | (In Thousands) | |
|---|---|---|
| **Year Ending September 30,** | **Governmental Activities** | **Business-Type Activities** |
| 2014 | $ 255 | $ 25 |
| 2015 | 255 | 12 |
| 2016 | 207 | - |
| Total minimum lease payments | 717 | 37 |
| Less amount representing interest | 82 | 1 |
| Present value of minimum lease payments | $ 635 | $ 36 |

## NOTE H - LANDFILL LEASE

On January 1, 2006, and amended on February 25, 2013, 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, 2013:

| | |
|---|---|
| 2014 | $ 918,000 |
| 2015 | 918,000 |
| 2016 | 918,000 |
| 2017 | 918,000 |
| 2018 | 918,000 |
| Thereafter | 42,457,500 |
| | $ 47,047,500 |

## 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 2013 of $1,120,255 is presented as other operating revenue in the statement of revenues, expenses and changes in net position.

## 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 $10,985,000 as of September 30, 2013. This estimate was based on 100-percent usage (filled) of the Jefferson County Landfill Number 1, 14-percent usage (filled) of the Jefferson County Landfill Number 1 Sub Cell 2-1, 98-percent usage (filled) of the Jefferson County Landfill Number 2 and the remaining liability for the Mt. Olive Sanitary and the Turkey Creek Sanitary Landfills, which were both closed October 1997. The total estimated current costs of closure and postclosure care remaining to be recognized and the estimated remaining useful life of the landfill at September 30, 2013, are $2,045,665 and 3.70 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 $283,320 as of September 30, 2013, and are presented as noncurrent restricted assets on the accompanying statement of net position under business-type activities. In accordance with Alabama Department of Environmental Management (ADEM) regulations, the Commission is required to provide financial assurance for closure and postclosure care costs annually. At September 30, 2013, the Commission was in compliance with the ADEM requirement related to financial assurance.

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, 2013. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

## NOTE J - WARRANTS PAYABLE (amounts in thousands)

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 funds for capital sewer projects and improvements. The Indenture provides for the issuance of additional securities secured on a parity of lien with the original issues of warrants. The Bank of New York Mellon, as successor to AmSouth Bank, currently serves as Trustee under the Indenture. The Commission also entered into Standby Warrant Purchase Agreements related to the variable rate warrant offerings, as discussed further below.

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

Payment of the principal and interest on the warrants when due is insured by municipal warrant insurance policies issued by Financial Guaranty Insurance Company (FGIC), Syncora Guarantee Inc. (Syncora) (formerly known as XL Capital Assurance, Inc.) or Assured Guaranty Municipal Corp. (AGM) (formerly known as Financial Security Assurance, Inc.), simultaneously with the delivery of each series of warrants discussed below, except the Series 2003-A warrants which were issued to an affiliate of the State of Alabama (see discussion below). The policies included exclusions for payment of debt service when due dates are accelerated under the optional or mandatory redemption (other than mandatory sinking fund redemption) features of certain warrant issues.

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.

***Statement of Cash Flows***
For statement of cash flows 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.

**NOTE J - WARRANTS PAYABLE - Continued**

**GOVERNMENTAL ACTIVITIES**

***General Obligation Warrants***

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

Payment of the principal and interest on the warrants when due is insured by a municipal warrant insurance policy issued by Ambac Assurance Corp. (Ambac) or National Public Finance Guarantee Corp. (National) (formerly known as MBIA Corporation, Inc. (MBIA)), excluding acceleration features for warrant payments due for certain issues that are subject to optional or mandatory redemption (other than by mandatory sinking fund redemption) features. Ambac incurred a series of ratings downgrades and filed Chapter 11 bankruptcy in November 2010 (discussed below).

***Limited Obligation School Warrants***

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

The Limited Obligation School Warrants were subject to extraordinary mandatory redemption under the Trust Indenture, which required the Commission to make certain certifications regarding the warrants on or before October 20, 2006. No grants were made to any school board until the warrants were no longer subject to extraordinary mandatory redemption, which occurred during fiscal 2007. There were no grants to the school boards expended subsequent to fiscal 2008.

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.

## NOTE J - WARRANTS PAYABLE - Continued

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

Warrants payable attributable to the Jefferson County Economic and Industrial Development Authority, which is included in the financial statements as a nonmajor enterprise fund, are discussed in Note P.

Warrants payable consist of the following at September 30, 2013:

| | |
|---|---|
| ***Business-Type Activities:*** | |
| Sewer Revenue Refunding Warrants, Series 1997-A, with interest paid semiannually at fixed rates ranging from 5.375% to 5.650% and annual principal payments due from 2017 to 2027 | $ 57,030 |
| Sewer Revenue Capital Improvement Warrants, Series 2001-A, with interest paid semiannually at fixed rates of 5.00% and annual principal payments through 2020 | 10,015 |
| Sewer Revenue Capital Improvement Warrants, Series 2002-A, with interest paid monthly at variable interest rates (6.25% at September 30, 2013) and accelerated principal payments (all currently due) | 101,465 |
| Sewer Revenue Refunding Warrants, Series 2002-C, with interest paid monthly at variable interest rates or 35-day auction rates (average rate of 3.44% at September 30, 2013) with accelerated principal payments of $409,638 (all currently due) and annual principal payments through 2040 for the balance | 806,738 |
| Sewer Revenue Refunding Warrant, Series 2003-A, with interest paid semiannually at a fixed rate of 3.10% and annual principal payments through 2015 | 11,690 |
| Sewer Revenue Refunding Warrants, Series 2003-B, with interest paid monthly at a fixed rate of 5.25% on $79,345, a variable interest rate on $281,260 and 35-day auction rates on $719,375 (average rate of 2.38% at September 30, 2013) with accelerated principal payments of $300,000 (all currently due) and annual principal payments through 2042 for the balance | 1,079,980 |
| Sewer Revenue Refunding Warrants, Series 2003-C, with interest paid monthly at 35-day auction rates (average rate of 0.45% at September 30, 2013) and annual principal payments through 2042 | 1,040,600 |
| | 3,107,518 |

## NOTE J - WARRANTS PAYABLE - Continued

***Governmental Activities:***

| | |
|---|---|
| General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates (average rate of 5.28% at September 30, 2013) with accelerated principal payments (all currently due) | 105,000 |
| General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, with interest paid semiannually at fixed rates ranging from 5.0% to 5.25% and annual principal payments through 2023 | 46,185 |
| General Obligation Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 3.70% to 5.00% and annual principal payments through 2024 | 49,335 |
| Limited Obligation School Warrants, Series 2004-A, with interest paid semiannually at fixed rates ranging from 4.75% to 5.50% and annual principal payments through 2025 | 479,465 |
| Limited Obligation School Warrants, Series 2005-A and 2005-B, with interest paid monthly at a variable rate on $141,145 (Series 2005-B) or auction rate on $105,500 (Series 2005-A) (average rate of 2.07% at September 30, 2013) and annual principal payments through 2027 | 246,645 |
| Lease Revenue Warrants, Series 2006, with interest paid semiannually at fixed rates ranging from 5.00% to 5.125% and annual principal payments through 2026 | 74,015 |
| | 1,000,645 |
| | 4,108,163 |
| Add unamortized net premiums (discounts) (net of current portion of $33,421) | - |
| Less deferred loss from early extinguishment (net of current portion of $247,718) | - |
| Less amounts due within one year (including acceleration of certain warrant payments and all warrants in default that may be payable on demand) | 4,108,163 |
| Warrants payable - noncurrent, net | $ - |

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

## NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of the warrants issued by the Commission, including those outstanding as of September 30, 2013.

### BUSINESS-TYPE ACTIVITIES

***Sewer Capital Improvement and Refunding Warrants***

***Series 1997-A Warrants***
The Commission issued $211,040 of tax-exempt Sewer Revenue Refunding Warrants, Series 1997-A under the Indenture, dated February 1, 1997. These warrants were issued to refund a portion of the Commission's outstanding sewer revenue indebtedness, other than the Sewer Revenue Warrant (SRF Warrant) referred to below. Proceeds were used to refund the Series 1992, 1993 and 1995-A Warrants.

The Series 1997-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants. The Series 1997-A Warrants were partially refunded by the Series 2003-B and Series 2003-C Warrants, as described below. The Series 1997-A Warrants have an outstanding balance of $57,030 at September 30, 2013.

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.

Simultaneous with the above issue, the Commission issued the Taxable Sewer Revenue Refunding Warrants, Series 1997-C for $52,880 to the Alabama Water Pollution Control Authority in exchange for an outstanding SRF Warrant of the same principal amount. The Series 1997-C Warrants were subsequently refunded by the Series 2003-A issue described below.

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

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

The warrants were partially refunded by the Series 2002-C, Series 2003-B and Series 2003-C Warrants, as described below. The Series 2001-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants. The Series 2001-A Warrants have an outstanding balance of $10,015 at September 30, 2013.

## NOTE J - WARRANTS PAYABLE - Continued

***Series 2002-A Warrants***

Under the Fourth Supplemental Indenture dated as of February 1, 2002, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $110,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2002-A. These warrants were issued for the purpose of funding various sewer capital improvements. The Series 2002-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants. The Series 2002-A Warrants have an outstanding balance of $101,465 at September 30, 2013.

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

Pursuant to its agreement with the Liquidity Provider under the Standby Warrant Purchase Agreement, the Commission was required to redeem the repurchased Series 2002-A Warrants on an accelerated schedule of 12 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 1, 2008. During 2009, FGIC repaid the Liquidity Provider on behalf of the Commission and acquired all rights of redemption under the original warrant indenture and the Standby Warrant Purchase Agreement. The outstanding balance is currently payable to FGIC as of September 30, 2013.

***Series 2002-B Warrants***

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

***Series 2002-C Warrants***

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

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 issued included $442,400 of Variable Rate Demand Warrants and $397,100 of auction rate warrants. The warrants are insured by Syncora pursuant to a bond insurance policy issued simultaneously with the warrants. The Series 2002-C Warrants have an outstanding balance of $806,738 at September 30, 2013 ($409,638 Variable Rate Demand Warrants and $397,100 of auction rate warrants).

**NOTE J - WARRANTS PAYABLE - Continued**

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

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2002-C Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 1, 2008. During fiscal year 2009, Syncora repaid the Liquidity Provider $81,934 of the outstanding warrants on behalf of the Commission acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. The total amount currently payable at September 30, 2013 is $409,638.

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

***Series 2003-A Warrants***
The Commission issued a $41,820 taxable Sewer Revenue Refunding Warrant, Series 2003-A as evidenced by the Eighth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of January 1, 2003. This warrant was issued for the purpose of refunding $41,820 (remaining balance) of the Series 1997-C Warrants. The Series 2003-A Warrant has an outstanding balance of $11,690 at September 30, 2013.

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

The Commission realized a loss on early refunding of warrants of approximately $122,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years).

The Series 2003-B Warrants issued included $119,965 of fixed rate warrants, $300,000 of Variable Rate Demand Warrants and $735,800 of auction rate warrants. The warrants are insured by AGM (fixed rate), Syncora (variable rate) and FGIC (auction rate) pursuant to bond insurance policies issued simultaneously with the warrants. The Series 2003-B Warrants have an outstanding balance of $1,079,980 ($79,345 fixed interest, $281,260 variable interest and $719,375 auction rate) at September 30, 2013.

**NOTE J - WARRANTS PAYABLE - Continued**

Standby Warrant Purchase Agreements with various banks (Liquidity Providers), as discussed further below, provide for the purchase of Series 2003-B Variable Rate Demand Warrants tendered for purchase in accordance with the terms of the agreements. Pursuant to the warrant holders' exercise of their rights under the Standby Warrant Purchase Agreements, the Liquidity Providers repurchased the $300,000 Series 2003-B Variable Rate Demand Warrants in March 2008.

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2003-B Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 2008.

The Commission made an accelerated payment of $18,740 during fiscal 2008. During fiscal year 2009, Syncora repaid the Liquidity Provider $56,255 of the outstanding warrants on behalf of the Commission, thus acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. The total amount payable as of September 30, 2013 is $281,260.

***<u>Series 2003-C Warrants</u>***
The Commission issued $1,052,025 of tax-exempt Sewer Revenue Refunding Warrants, Series 2003-C with the Tenth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated August 1, 2003. These warrants were issued for the purpose of refunding $1,027,800 of outstanding warrants ($22,540 of Series 1997-A Warrants, $43,760 of Series 1997-D Warrants, $133,590 of Series 1999-A Warrants, $47,610 of Series 2001-A Warrants, $333,080 of Series 2002-B Warrants and $447,220 of Series 2002-D Warrants). In addition, $71,300 of proceeds was placed in escrow for future debt service requirements.

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 are auction rate warrants and are insured by AGM and FGIC under bond insurance policies issued simultaneously with the warrants. The Series 2003-C Warrants have an outstanding balance of $1,040,600 at September 30, 2013.

**Payments Not Made on Warrants Outstanding**
Beginning in February 2013 and to September 30, 2013 and through December 2013, scheduled principal and interest payments related to the Sewer Warrants were not made as scheduled due to the Trustee's suspension of debt service payments on such warrants. The Commission has continued to remit all net revenues of the sanitary sewer system to the Trustee subsequent to the Trustee's suspension of debt service payments. Principal and interest due is included in the accompanying financial statements. The total of payments not made is $29,685 of principal and $64,601 of interest as of September 30, 2013. Payments not made after the fiscal year end totaled $11,002 of interest. The suspended principal and interest payments were made to holders of the warrants in December 2013 pursuant to the Commission's Plan of Adjustment under Chapter 9 Bankruptcy. See Note V - Subsequent Events and Note W - Bankruptcy and Restructuring for further discussion.

## NOTE J - WARRANTS PAYABLE - Continued

## GOVERNMENTAL ACTIVITIES

### *General Obligation Warrants*

***General Obligation Warrants, Series 2001-B***
On July 19, 2001, the Commission issued $120,000 of tax-exempt General Obligation Warrants, Series 2001-B (GO Series 2001-B Warrants). These warrants were issued for the purpose of refunding the County's General Obligation Warrants, Series 1996 (Landfill Operations) and Series 1999 and related issuance costs. The GO Series 2001-B Warrants have an outstanding balance of $105,000 at September 30, 2013.

Approximately $19,200 of the issue was used to refund debt for the Landfill Operations Fund, of which $16,800 is the outstanding balance at September 30, 2013. The interfund balance due from the Landfill Operations Fund to the Debt Service Fund, related to interest expense, at September 30, 2013, is $900.

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

Pursuant to its agreements with the GO Liquidity Providers, the Commission was required to redeem the GO Series 2001-B Warrants on an accelerated schedule of six equal semiannual payments beginning six months from the date of purchase (2008). During fiscal year 2009, the Commission paid a total of $15,000 of the outstanding obligations to the GO Liquidity Providers. No additional payments were made on the warrants. The remaining balance of $105,000 is payable to the GO Series 2001-B Liquidity Providers (above) at September 30, 2013.

The Commission received notices of Events of Default dated September 15, 2008, from JPMorgan Chase under the Standby Warrant Purchase Agreement and from The Bank of New York Mellon, Trustee, dated July 30, 2009 (discussed below).

The Commission suspended principal and interest payments on the GO Series 2001-B Warrants in December 2011, which resulted in payment defaults. Principal payments not made included April 2012 and 2013 payments totaling $19,845 and interest payments totaling $10,786. Principal and interest payments were made in December 2013 with the bankruptcy restructuring. See Note V - Subsequent Events and Note W - Bankruptcy and Restructuring for further discussion.

***General Obligation Capital Improvement and Refunding Warrants, Series 2003-A***
On March 1, 2003, the Commission issued $94,000 of tax-exempt General Obligation Capital Improvement and Refunding Warrants, Series 2003-A (GO Series 2003-A Warrants). These warrants were issued for the purpose of refunding the Commission's outstanding General Obligation Warrants, Series 1993, for capital expenditures and payment of related issuance costs.

**NOTE J - WARRANTS PAYABLE - Continued**

The GO Series 2003-A Warrants are insured by a bond insurance policy issued by National. The GO Series 2003-A Warrants have an outstanding balance of $46,185 at September 30, 2013.

There were payment defaults for the April 2012 and 2013 principal payments due totaling $2,270 and semi-annual interest payments due (April and October, 2012 and 2013) totaling $4,524, whereby the bond insurer, National, made payments on behalf of the Commission. See Events of Default below for further discussion.

***General Obligation Capital Improvement Warrants, Series 2004-A***
On August 1, 2004, the Commission issued $51,020 of tax-exempt General Obligation Warrants, Series 2004-A (GO Series 2004-A Warrants). These warrants were issued for the purpose of various capital improvements for the Commission and payment of the related issuance costs. The GO Series 2004-A Warrants are insured by a bond insurance policy issued by National. The GO Series 2004-A Warrants have an outstanding balance of $49,335 at September 30, 2013.

There were payment defaults for the April 1, 2012 and 2013 principal payments due totaling $3,575 and April 2012, October 2012 and April 2013 interest payments totaling $4,542, whereby the bond insurer, National, made payments on behalf of the Commission. Also see Events of Default below for further discussion.

***Limited Obligation School Warrants***

***Limited Obligation School Warrants, Series 2004-A***
The Commission issued $650,000 of tax-exempt Limited Obligation School Warrants, Series 2004-A (LO Series 2004-A Warrants) under the Trust Indenture dated December 1, 2004 (Trust Indenture), between the Commission and U.S. Bank (as successor indenture trustee of SouthTrust Bank). These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and for retirement of certain debt of the school boards.

The repayment obligations related to the LO Series 2004-A Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds). The LO Series 2004-A Warrants have an outstanding balance of $479,465 at September 30, 2013.

A Notice of Default was issued by U.S. Bank, as trustee, dated December 28, 2009 regarding a deficiency in the Reserve Fund Requirements. In addition, the Trustee notified warrant holders of continuing or additional Events of Default due to the Chapter 9 Bankruptcy filing of the Commission on November 9, 2011. See Events of Default below for further discussion.

***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 U.S. Bank (successor indenture trustee of SouthTrust Bank) 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.

**NOTE J - WARRANTS PAYABLE - Continued**

The repayment obligations related to the LO Series 2005-A and 2005-B Warrants are secured by the gross proceeds of a special education tax (Pledged Education Tax Proceeds). The LO Series 2005-A and 2005-B Warrants are insured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see below). The LO Series 2005-A and 2005-B Warrants have an outstanding balance of $246,645 at September 30, 2013.

A Standby Warrant Purchase Agreement dated January 1, 2005, with Depfa Bank PLC (LO Liquidity Provider), as discussed further below, provided for the purchase of LO Series 2005-B Warrants tendered for purchase in accordance with the terms of the agreement. Depfa Bank became a holder of approximately $179,750 of tendered warrants on February 14, 2008, pursuant to the Standby Warrant Purchase Agreement for the LO Series 2005-B Variable Rate Demand Warrants.

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any excess monies accumulated in the Redemption Fund. Excess redemptions of $21,330 were made during fiscal 2013. The Commission withheld $3,756 of funds in the Revenue Fund which resulted in a default (see discussion below and Note W – Bankruptcy and Restructuring for the ultimate resolution). The terms of the Supplemental Indenture permit the Commission to reduce the scheduled mandatory sinking fund payments, up to the amount of early redemptions of those same warrants, with proper notice to the Trustee. Effective with the fiscal 2011 mandatory sinking fund payments due, the Commission notified the Trustee and used excess redemptions previously paid to reduce payments totaling $17,275 for LO Series 2005-A Warrants ($5,575 for 2011, $5,750 for 2012 and $5,950 for 2013).

The Commission may continue to utilize excess redemptions made to satisfy annual mandatory sinking fund payments. The Commission notified the Trustee and used excess redemptions to reduce the principal payment due in fiscal 2014 (subsequent to year end) of $6,150 on the LO Series 2005-A Warrants (Note V).

A Notice of Default was issued by U.S. Bank dated December 28, 2009, related to the LO Series 2005-A and 2005-B Warrants primarily due to a failure to satisfy covenants set forth in the Indenture related to the Reserve Fund Requirements. The reserve was subsequently replenished in fiscal 2012; however, the Trustee determined that the Event of Default was not extinguished.

The LO Liquidity Provider (Depfa Bank PLC) also notified the Commission of certain Events of Default related to the Series 2005-B Warrants under the Standby Warrant Purchase Agreement, including the failure to give priority to redemption of Bank Warrants held by Depfa Bank PLC for the excess pledged education tax revenues. The Commission entered into a Plan Support Agreement dated February 11, 2013, with Depfa Bank PLC. See further discussion below in the Material Event Notice dated February 15, 2013.

In addition, the Trustee has notified warrant holders of continuing or additional Events of Default due to the Chapter 9 Bankruptcy filing of the Commission on November 9, 2011. See Events of Default discussion below and Note W - Bankruptcy and Restructuring for further discussion.

## NOTE J - WARRANTS PAYABLE - Continued

### Second Supplemental Trust Indenture

The LO Series 2004-A and Series 2005-A and B Warrants were issued pursuant to a Trust Indenture, dated December 1, 2004, between the Commission and U.S. Bank (as successor trustee), as supplemented by a First Supplemental Indenture. The Second Supplemental Trust Indenture dated as of December 3, 2013 (the Effective Date of the Amended Plan) provides a waiver of all past Events of Default, designates that excess tax proceeds will be applied first to the Series 2005-B Warrants, states that no prior excess redemptions will apply to Series 2005-B mandatory redemptions, among other provisions. See Note V-Subsequent Events and Note W - Bankruptcy and Restructuring.

### ***Lease Revenue Warrants, Series 2006***

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

While the Commission is not the issuer of the LR Series 2006 Warrants, the Building Authority's payment obligations under the LR Series 2006 Warrants are secured by lease revenues generated by the Commission's lease of the above-referenced buildings from the Building Authority. The LR Series 2006 Warrants are secured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see discussion below). The outstanding principal balance of the LR Series 2006 Warrants was $74,015 at September 30, 2013. Also, see Note V for subsequent events related to the lease.

### 2013 Lease Agreement

On August 22, 2012, the Commission filed a motion with the Bankruptcy Court to reject the original lease agreement between the Commission and the Building Authority. The Commission entered into a new lease agreement effective January 1, 2013, for the Building Authority related to the LR Series 2006 Warrants. The new lease agreement implements that certain Stipulation and Agreement Regarding the Settlement and Resolution of Certain Disputes entered into by the Commission, the Building Authority, the LR Series 2006 Warrants Trustee and Ambac (the Bond insurer) (Note S). Simultaneous with the Lease Agreement, the Building Authority and Trustee executed and delivered a First Supplemental Trust Indenture dated as of January 1, 2013 (see below). The lease is subject to renewal on an annual basis. Annual lease payments range from $3,200 to $5,200, including partial payments to be made by the bond insurer for years 2016 to 2026.

### First Supplemental Trust Indenture

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

## NOTE J - WARRANTS PAYABLE - Continued

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2013. Activity related to the long-term debt is as follows:

| Issue | Balance at September 30, 2012 | Additions | Payments | Balance at September 30, 2013 | Due within One Year |
|---|---|---|---|---|---|
| Business-Type Activities: | | | | | |
| Series 1997-A Warrants | $ 57,030 | $ - | $ - | $ 57,030 | $ 57,030 |
| Series 2001-A Warrants | 10,015 | - | - | 10,015 | 10,015 |
| Series 2002-A Warrants | 101,465 | - | - | 101,465 | 101,465 |
| Series 2002-C Warrants | 806,738 | - | - | 806,738 | 806,738 |
| Series 2003-A Warrants | 11,690 | - | - | 11,690 | 11,690 |
| Series 2003-B Warrants | 1,079,980 | - | - | 1,079,980 | 1,079,980 |
| Series 2003-C Warrants | 1,040,600 | - | - | 1,040,600 | 1,040,600 |
| | 3,107,518 | - | - | 3,107,518 | 3,107,518 |
| Governmental Activities: | | | | | |
| Series 2001-B GO Warrants | 105,000 | - | - | 105,000 | 105,000 |
| Series 2003-A GO Warrants | 46,185 | - | - | 46,185 | 46,185 |
| Series 2004-A GO Warrants | 49,335 | - | - | 49,335 | 49,335 |
| Series 2004-A LO Warrants | 507,635 | - | 28,170 | 479,465 | 479,465 |
| Series 2005-A&B LO Warrants | 273,925 | - | 27,280 | 246,645 | 246,645 |
| Series 2006 Lease Warrants | 78,370 | - | 4,355 | 74,015 | 74,015 |
| | 1,060,450 | - | 59,805 | 1,000,645 | 1,000,645 |
| | $ 4,167,968 | $ - | $ 59,805 | $ 4,108,163 | $ 4,108,163 |

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

Payments above do not include any payments made on behalf of the Commission by the municipal insurers or banks under the Standby Warrant Purchase Agreements as these amounts are still outstanding at September 30, 2013. Therefore, the balances payable reported in the above table include amounts due to warrant holders, banks and liquidity providers and municipal bond insurers.

**Standby Warrant Purchase Agreements**

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

The Commission entered into Standby Warrant Purchase Agreements between 2001 and 2005 with various banks (Liquidity Providers), which provide for the purchase of such Variable Rate Demand Warrants that are subject to purchase pursuant to the optional tender terms and conditions of the related Sewer Warrants Indenture or Governmental Warrants Trust Indentures, but not remarketed. Under the terms of these Standby Warrant Purchase Agreements, substantially all of the warrants subject to such agreements were tendered during 2008 by the warrant holders for repurchase by the banks (Liquidity Providers).

**NOTE J - WARRANTS PAYABLE - Continued**

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

The Commission entered into certain Forbearance Agreements to forbear any action while efforts were made to restructure the warrant obligations. However, such Forbearance Agreements (and any related extensions) expired in June and July 2009 rendering certain payments due to the Liquidity Providers under the terms of the various Standby Warrant Purchase Agreements. All such warrants under accelerated payment schedules are currently due and payable at September 30, 2013.

Ultimately, the accelerated schedules have resulted in notices of default and events of default on certain warrant and related agreements, as neither the Commission nor the majority of bond insurers have been able to redeem the warrants on the accelerated maturity schedules. See discussion below regarding the Events of Default on the Standby Warrant Purchase Agreements.

**Events of Default**

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

These defaults became Events of Default when not cured within 30 days of the date of the Notice. The following summarizes the Events of Default for the Commission. Also, see Note W - Bankruptcy and Restructuring for discussion of the ultimate default resolutions.

***Business-Type Activities***

**Trustee Notices of Default**

***October 15, 2008 -*** The Trustee delivered a Notice of Default to the Commission by letter dated October 15, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission (a) to apply the monies in the Revenue Account that remain after the payment of Operating Expenses for payment into the Debt Service Fund, the Reserve Fund, the Rate Stabilization Fund and the Depreciation Fund, in such order and in such amounts and at such times as required by the Indenture, (b) to fix, revise and maintain such rates for services furnished by the Sewer System as shall be sufficient (i) to provide for the payment of the interest and premium (if any) on and the principal of the parity securities, as and when the same shall become due and payable, (ii) to provide for the payment of the Operating Expenses and (iii) to enable the Commission to perform and comply with all of its covenants contained in the Indenture, in each case as required by Section 12.5(a) of the Indenture and (c) to make from time to time, to the extent permitted by law, such increases and other changes in such rates and charges as may be necessary to comply with the provision of Section 12.5(a) of the Indenture, as required by Section 12.5(b) of the Indenture.

**NOTE J - WARRANTS PAYABLE - Continued**

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

As discussed in a September 22, 2008, Material Event Notice, the Trustee, at the direction of FGIC and Syncora, filed a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the County Sewer System. A receiver was appointed for the Commission in fiscal 2011 but subsequently dismissed after the Commission filed bankruptcy in November 2011. See Note S - Contingent Liabilities and Litigation and Note V - Subsequent Events, for further discussion.

***November 14, 2008* -** The Trustee delivered a Notice of Default to the Commission by letter dated November 14, 2008, pursuant to Section 13.1(c) of the Indenture. The Trustee gave notice that covenant defaults have occurred and are continuing as a result of the failure of the Commission to (a) pay into the Reserve Fund on or before September 15, 2008 and October 15, 2008, amounts required by Section 11.3 of the Indenture for the purpose of restoring the balance of the Reserve Fund to the Reserve Fund Requirement and (b) to pay into the Reserve Fund monthly payments for the months of September and October 2008, required by Section 11.11 of the Indenture as a result of the downgrade in the respective ratings of Syncora and FGIC.

***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).

The Notice of Default also states that certain Events of Default have occurred, resulting from failure to comply with Sections 11.3 and 11.11 of the Indenture which requires the Reserve Fund balance to be restored on or before November and December 2008, as a result of the downgrade in the respective ratings of Syncora and FGIC. The Notice also disclosed that the net sewer revenues have not been sufficient to meet the debt service requirements on the Warrants in recent months, prior to December 19, 2008, due to the extraordinary increases in interest cost experienced by the Commission on the Variable Rate Demand and Auction Rate Warrants, as described in prior Notices.

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

**NOTE J - WARRANTS PAYABLE - Continued**

***February 17, 2009* -** The Trustee delivered a Notice of Default to the Commission dated February 17, 2009, pursuant to Section 13.1(c) of the Indenture. The Notice of Default states that the Commission is in violation of certain covenants set forth in the Indenture. The Trustee gave notice that a covenant default has occurred and is continuing as a result of the failure of the Commission to comply with Section 12.5(c) of the Indenture that requires the review and adjustment of customer sewer rates and charges and the implementation of a rate increase no later than January 1, 2009, to allow compliance with the Rate Covenant of the Indenture.

The Trustee further notified the Commission of the covenant default that occurred and is continuing as a result of failure to comply with the provisions of the Indenture to restore the Reserve Fund to the levels required under the Indenture. In addition, the covenant defaults discussed in the Notices dated October 15, 2008 and December 19, 2008 (discussed above), have continued and are Events of Default under Section 13.1(c) of the Indenture.

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

***March 24, 2009* -** The Trustee delivered a Notice of Default to the Commission dated March 24, 2009, that covenant defaults have occurred and are continuing as a result of the failure to comply with the provisions of Section 4.4 of the Third Supplemental Indenture requiring the repayment of draws under the Reserve Policy and related expenses incurred by the bond insurer (plus any accrued interest) and requiring that the Rate Covenant in the Indenture provide at least one times coverage of the Commission's obligations.

The Trustee further notified the Commission of the covenant default that occurred as a result of failure to comply with the provisions of the Indenture to restore the Reserve Fund to the levels required under Section 11.3 of the Indenture and to pay into the Reserve Fund monthly payments required by Section 11.11 of the Indenture as a result of the downgrade in the respective ratings of Syncora and FGIC.

***February 3, 2010* -** The Trustee delivered a Notice of Default to the Commission dated February 3, 2010, pursuant to Section 13.1(c) of the Indenture. The Trustee issued a demand for the Commission to cure its covenant defaults and the Events of Default which continue unabated.

The Trustee notified the Commission of failure to comply with Sections 11.3 and 11.11 for failure to restore the Reserve Fund to the Reserve Fund Requirement; failure to comply with Section 12.2 and to furnish the audit within 180 days of year end; failure to comply with Section 12.5 to increase the rates and charges to comply with the Rate Covenant on January 1, 2010, and the continuation of other notices given on March 24, 2009, February 17, 2009, December 19, 2008 and October 15, 2008 (as discussed above).

**NOTE J - WARRANTS PAYABLE - Continued**

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

**Events of Default under Standby Warrant Purchase Agreements**

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

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

Also, the Commission covenanted in each Liquidity Facility to effect an optional redemption of Bank Warrants in 12 or 16 equal quarterly principal installments, with the first installment being payable on the first business day of January, April, July or October that first occurs on or following the purchase date for the Bank Warrants in question. Such obligation to redeem a particular Bank Warrant will terminate when that warrant is remarketed or refinanced.

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

The ratings downgrade and events 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.

**NOTE J - WARRANTS PAYABLE - Continued**

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

The Liquidity Agent (JPMorgan Chase Bank) entered into Redemption Date Deferral Agreements with the Commission related to the Series 2002-C-2 Warrants to defer the payments due to the Liquidity Agent and Providers to February 20, 2009, if a partial payment of $4,605 (originally due on December 8, 2008) was made by the Commission on or before January 2, 2009.

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

The Commission defaulted on its obligation to redeem the Variable Rate Demand Sewer Revenue Warrants (Series 2002-A, Series 2002-C and Series 2003-B Warrants) on the accelerated 12 or 16 installment timeframe. As a result, Syncora purchased Variable Rate Demand Sewer Revenue Warrants (Series 2002-C Warrants and Series 2003-B Warrants) from the Liquidity Providers in an aggregate principal amount of $109,196 pursuant to claims on bond insurance policies provided by Syncora for those Warrants.

Syncora and the Liquidity Providers subsequently entered into a Settlement Agreement dated as of April 7, 2010, whereby Syncora was relieved of further payments under its bond insurance policies for the Variable Rate Demand Sewer Revenue Warrants (Series 2002-C Warrants and Series 2003-B Warrants) in exchange for multiple lump-sum payments to the Liquidity Providers. The outstanding balance for the Variable Rate Demand Sewer Revenue Warrants (Series 2002-C and Series 2003-B Warrants) is payable as of September 30, 2013.

**Termination of Standby Warrant Purchase Agreement - Series 2002-A**

The holders of the Series 2002-A Warrants had the right to tender the warrants for purchase at par plus accrued interest with seven days' notice. The Series 2002-A Warrants were insured by FGIC.

On September 11, 2008, the Liquidity Provider delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility. The notice cited the occurrence and continuation of an Event of Default specified in Section 8.01(o) of the Liquidity Facility, relating to the downgrade of FGIC, as the grounds for the termination of the Liquidity Facility. Pursuant to the Termination Notice and Section 8.02(b) of the Liquidity Facility, the Liquidity Facility terminated 20 days after the receipt by the Trustee of the Termination Notice. As a result of the Termination Notice, the holders of the Series 2002-A Warrants were required to tender such warrants for purchase pursuant to the mandatory tender provisions of the Indenture prior to the termination of the Liquidity Facility.

**NOTE J - WARRANTS PAYABLE - Continued**

Pursuant to the Liquidity Facility and related Event of Default, the Commission was required to redeem all Series 2002-A Warrants held by the Liquidity Provider in four equal quarterly installments, beginning October 1, 2008. During 2009, FGIC repaid the Liquidity Provider on behalf of the Commission, and the entire outstanding balance for Series 2002-A Warrants is currently payable to FGIC.

**Liquidity Facility Forbearance Agreements**

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

The Liquidity Facility Forbearance Agreements generally provided that, during the forbearance period, the Liquidity Providers will forbear from exercising any rights or remedies that the Liquidity Providers have or may have, now or hereafter, arising during the forbearance period as a result of any and all defaults and events of default existing under the Liquidity Facilities.

The initial forbearance period expired during 2008, was extended over multiple periods and ultimately expired on July 31, 2009 (JPMorgan Chase Bank) or June 30, 2009 (all others), and was subject to termination at any time at the discretion of the Liquidity Providers.

**Interest on Warrants**

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

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

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

In addition, the defaults on certain warrants or the Standby Warrant Purchase Agreements have resulted in default rates of interest incurred by the Commission. These rates may be one to three percent higher than prevailing interest rates for the warrants. See separate discussion regarding the Events of Default discussed above.

## NOTE J - WARRANTS PAYABLE - Continued

### *Governmental Activities*

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

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

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

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

On September 15, 2008, the Commission entered into separate forbearance agreements with the GO Liquidity Providers to forbear the warrants that were due until September 30, 2008 (subsequently extended to September 14, 2009, but ultimately expired).

Of the $105,000 principal balance outstanding at September 30, 2013, an accelerated payment totaling $104,250 is currently due and payable to the liquidity providers.

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

**NOTE J - WARRANTS PAYABLE - Continued**

Certain principal ($9,695 due April 1, 2012 and $10,150 due April 1, 2013) and interest payments (due monthly since December 2011 and totaling $4,746 for 2012 and $6,088 for 2013) were not paid by the Commission. Also see Note V - Subsequent Events for payments not made subsequent to year end and Note W - Bankruptcy and Restructuring.

**Covenant Violations and Notices of Default - GO Series 2003-A and 2004-A Warrants**
The Bank of New York Mellon serves as Paying Agent for the GO Series 2003-A Warrants and U.S. Bank (as successor to SouthTrust Bank) serves as Paying Agent for the GO Series 2004-A Warrants.

U.S. Bank provided written Notices of Events of Default dated April 6, 2012, October 4, 2012 and April 2, 2013, for the GO Series 2004-A Warrants due to payment defaults for the Commission's failure to pay the entire principal and interest payments due on the Warrants on April 1, 2012, October 1, 2012 and April 1, 2013. As required by Article 4(A) of Annex A of the Indenture, when sufficient payment was not received to pay the interest due on the Warrants, U.S. Bank notified the Bond Insurer, who notified U.S. Bank of such intent to make the payments due. U.S. Bank distributed all of the money received from the Bond Insurer prior to the date of the Notices.

When the Commission failed to pay the entire principal and interest payments due on the GO Series 2003-A Warrants due April 1, 2012, October 1, 2012 and April 1, 2013, the Bond Insurer made the principal and interest payments to the Bank of New York Mellon on behalf of the Commission. The Bank of New York Mellon distributed all of the money received from the Bond Insurer to the holders of the GO Series 2003-A Warrants.

**Liquidity Facility Forbearance Agreements**
As a result of certain Notices of Events of Default, described herein and below in the Material Event Notices section, 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 Girozentrale, both as the Liquidity Providers and Liquidity Agent).

The Forbearance Agreement generally provided that, during the forbearance period, the counterparties will forbear from exercising any rights or remedies that the Liquidity Provider has or may have, now or hereafter arising during the forbearance period. The Commission subsequently entered into separate agreements with each party to extend the Forbearance Agreements to September 14, 2009, at which time all such agreements were terminated.

**NOTE J - WARRANTS PAYABLE - Continued**

**Notices of Default - LO School Warrants Series 2004-A, 2005-A and B**
Pursuant to Section 17.1(b) of the Indenture, U.S. Bank (successor Trustee) provided a written Notice of Default dated December 28, 2009, to the Commission for the LO School Warrants, Series 2004-A, 2005-A and B whereby notice was given that the Commission failed to satisfy all or a portion of the Reserve Fund Requirement set forth in Sections 14.3 and 14.8 of the Indenture.

Section 14.3 of the Indenture states that the Reserve Fund Requirement may be satisfied, in whole or in part, by depositing with the Trustee a surety bond or insurance policy that satisfies the requirements specified in Section 14.8. Section 14.8 indicates that the "claims paying ability" of the issuer of such bond or policy must be rated "AAA" by S&P or "Aaa" by Moody's.

Section 14.8 further states that if the claims paying ability of the issuer falls below "A," then the Commission must either deposit a sufficient amount of funds into the Reserve Fund to meet the Reserve Fund Requirement (paid in equal monthly installments over the ensuing year) or replace such instrument with a surety bond, insurance policy or letter of credit meeting the requirements within six months.

The Commission failed to deposit either form of funds as required by Section 14.8 of the Indenture in the required time frame. The failure to remedy the covenant default within the 30-day period subsequent to the Notice constitutes an Event of Default under Section 17.1(b) of the Indenture. During September 2012, the Commission transferred $12,553 into the Reserve Fund and met its obligations under Section 14.8 of the Indenture and satisfied the Reserve Fund Requirement. The Trustee notified bondholders that the Reserve Fund has been replenished, but the Trustee is of the opinion the Commission's replenishment of the Reserve Fund after the applicable cure period set forth in the Indenture did not cause the existing Event of Default to be extinguished.

**Notices of Default - LO School Warrants, Series 2004-A, 2005-A and 2005-B**
Pursuant to Section 18.2 of the Indenture, an additional Event of Default under the Indenture occurred with the Commission's filing a petition under Chapter 9 of the Bankruptcy Code on November 9, 2011. The commencement of a voluntary bankruptcy proceeding by the Commission constitutes an Event of Default under Section 17.1(d)(iii) of the Indenture, and U.S. Bank, as Trustee for the above mentioned warrants, notified bondholders of the additional Event of Default.

In a separate matter, U.S. Bank, as Trustee under the Indenture, notified bondholders on May 4, 2012, of an additional Event of Default effective December 15, 2011, when the Commission failed, to the extent it was in possession of Education Tax Proceeds in excess of the amount needed to fund the Reserve Fund fully in accordance with the Indenture, to transfer funds to the Redemption Account for the redemption of LO Series 2005 Warrants as provided for by Section 14.4 of the Indenture.

The Commission is required to transfer any remaining funds held in the Revenue Account (Excess Proceeds) to the Trustee each December 15 for Excess Tax Proceeds Mandatory Redemptions in accordance with the Indenture. In a Notice to Holders dated March 21, 2013, U.S. Bank, as Trustee, stated that the Commission paid $21,295 of Excess Proceeds to the Trustee for deposit to the Redemption Account, and that such funds, along with other funds already deposited in the Redemption Account, were used to redeem $21,330 LO Series 2005-B Warrants as an Excess Tax Proceeds Mandatory Redemption, in accordance with the Indenture.

**NOTE J - WARRANTS PAYABLE - Continued**

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

Depfa claims that the Commission failed to give them priority regarding certain redemptions of warrants with excess tax proceeds in March 2008 and 2009. Depfa further notes the defaults described in the December 28, 2009, Notice (discussed above). As a result, Depfa notified the Commission that it exercised its right to charge, as of January 27, 2010, the default rate of interest as allowed under the Agreement, which results in a three-percent increase over the current interest rate.

The Commission entered into a Plan Support Agreement dated February 11, 2013 with Depfa. See discussion below regarding the February 15, 2013, Material Event Notice and Note W - Bankruptcy and Restructuring for the terms of the Plan Support Agreement.

**Notice of Event of Default - Lease Revenue Warrants, Series 2006**
Under the Trust Indenture dated August 1, 2006, between the Jefferson County Public Building Authority (Authority) and First Commercial Bank, as trustee (Trustee), the Warrants are payable solely from lease payments by the Commission to the Authority pursuant to a Lease Agreement dated August 1, 2006. Under the Lease Agreement, the Commission is required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants. Principal in the amount of $4,130 and interest in the amount of $2,081 were due with respect to the Warrants on April 2, 2012.

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

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

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The Commission entered into a new lease agreement effective January 1, 2013, with the Jefferson County Public Building Authority related to the LR Series 2006 Warrants, which effectively cured the default. See discussion of the 2013 Lease Agreement in the LR Series 2006 Warrants section above.

## NOTE J - WARRANTS PAYABLE - Continued

### Maturity Schedules

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

***Original Terms***

| Fiscal Year Ending September 30, | Business-Type Activities Principal | Business-Type Activities Interest | Governmental Activities Principal | Governmental Activities Interest | Total Principal and Interest Requirements to Maturity Principal | Total Principal and Interest Requirements to Maturity Interest | Total |
|---|---|---|---|---|---|---|---|
| 2014 | $ 91,935 | $ 111,854 | $ 85,920 | $ 42,196 | $ 177,855 | $ 154,050 | $ 331,905 |
| 2015 | 38,515 | 65,206 | 63,045 | 39,171 | 101,560 | 104,377 | 205,937 |
| 2016 | 40,345 | 64,180 | 65,980 | 36,266 | 106,325 | 100,446 | 206,771 |
| 2017 | 42,990 | 63,672 | 69,095 | 33,216 | 112,085 | 96,888 | 208,973 |
| 2018 | 46,185 | 63,049 | 72,330 | 29,990 | 118,515 | 93,039 | 211,554 |
| 2019-2023 | 283,310 | 295,411 | 387,520 | 99,947 | 670,830 | 395,358 | 1,066,188 |
| 2024-2028 | 448,850 | 244,380 | 256,755 | 15,808 | 705,605 | 260,188 | 965,793 |
| 2029-2033 | 490,975 | 200,210 | - | - | 490,975 | 200,210 | 691,185 |
| 2034-2038 | 719,850 | 131,805 | - | - | 719,850 | 131,805 | 851,655 |
| 2039-2043 | 904,563 | 36,757 | - | - | 904,563 | 36,757 | 941,320 |
| | $3,107,518 | $1,276,524 | $1,000,645 | $ 296,594 | $4,108,163 | $1,573,118 | $5,681,281 |

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

As discussed above, certain warrants are subject to accelerated repayment schedules from the original terms. The accelerated payments resulted in a revised payment schedule.

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

***Accelerated Repayment Schedule***

| Fiscal Year Ending September 30, | Business-Type Activities Principal Payments Due | Governmental Activities Principal Payments Due | Total Principal Payments Due |
|---|---|---|---|
| 2014 | $ 864,117 | $ 160,455 | $ 1,024,572 |
| 2015 | 34,635 | 51,930 | 86,565 |
| 2016 | 36,339 | 54,350 | 90,689 |
| 2017 | 38,832 | 56,925 | 95,757 |
| 2018 | 41,851 | 59,590 | 101,441 |
| 2019-2023 | 203,191 | 360,640 | 563,831 |
| 2024-2028 | 316,967 | 256,755 | 573,722 |
| 2029-2033 | 415,785 | - | 415,785 |
| 2034-2038 | 460,940 | - | 460,940 |
| 2039-2043 | 694,861 | - | 694,861 |
| | $ 3,107,518 | $ 1,000,645 | $ 4,108,163 |

## NOTE J - WARRANTS PAYABLE - Continued

While a restructuring of the warrants payable obligations resulted in a revised payment schedule subsequent to year end (see Note W - Bankruptcy and Restructuring), Notices and Events of Default have occurred related to the outstanding warrants payable, as discussed further throughout Note J. In addition, there are certain series of warrants that are subject to a cross-default under the terms of the various indentures. With the continuance of the Events of Default at September 30, 2013, the Trustee had the right to declare the outstanding warrants payable due and payable on demand under the terms of the various indentures. As a result, the following table presents the outstanding warrants payable amounts as current liabilities:

***Due on Demand Accelerated Repayment Schedule***

| Fiscal Year Ending September 30, | Business-Type Activities Principal Payments Due | Governmental Activities Principal Payments Due | Total Principal Payments Due |
|---|---|---|---|
| 2014 | $ 3,107,518 | $ 1,000,645 | $ 4,108,163 |
| Thereafter | - | - | - |
| | $ 3,107,518 | $ 1,000,645 | $ 4,108,163 |

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

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

With the confirmation of the Bankruptcy restructuring, the Commission refinanced or exchanged certain warrants (including all of the sewer warrants outstanding and GO Series 2001-B). The ultimate bankruptcy restructuring had a significant impact on the warrants outstanding for the Commission (as discussed in Note L - Issuance of New Warrants and Note W - Bankruptcy and Restructuring).

### Defeasance of Warrants and Deferred Loss on Refundings

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. During fiscal year ended September 30, 2013, the Commission defeased warrants of $6,864 of Governmental Activities. There are no escrowed funds held at September 30, 2013 by the Commission.

## NOTE J - WARRANTS PAYABLE - Continued

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

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

| | (In Thousands) | | |
|---|---|---|---|
| | Issuance Costs | Premiums (Discounts) Net | Deferred Loss on Refundings |
| Business-Type Activities: | | | |
| Total net premiums (discounts), issuance costs, deferred loss on refunding | $ 72,853 | $ 6,570 | $ 360,618 |
| Accreted (amortized), net in prior years | (29,187) | (460) | (102,296) |
| | 43,666 | 6,110 | 258,322 |
| Current year (amortization) accretion, net | (1,503) | (208) | (10,604) |
| Net balance at September 30, 2013 | $ 42,163 | $ 5,902 | $ 247,718 |
| Governmental Activities: | | | |
| Total net premiums (discounts), issuance costs, deferred loss on refunding | $ 19,128 | $ 51,347 | $ 1,793 |
| Accreted (amortized), net in prior years | (8,002) | (21,370) | (1,793) |
| | 11,126 | 29,977 | - |
| Current year (amortization) accretion, net | (844) | (2,458) | - |
| Net balance at September 30, 2013 | $ 10,282 | $ 27,519 | $ - |
| Commission total: | | | |
| Total net premiums (discounts), issuance costs, deferred loss on refunding | $ 91,981 | $ 57,917 | $ 362,411 |
| Accreted (amortized), net in prior years | (37,189) | (21,830) | (104,089) |
| | 54,792 | 36,087 | 258,322 |
| Current year (amortization) accretion, net | (2,347) | (2,667) | (10,604) |
| Net balance at September 30, 2013 | $ 52,445 | $ 33,420 | $ 247,718 |

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

## NOTE J - WARRANTS PAYABLE - Continued

### Accrued Arbitrage Rebate

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 any arbitrage rebate within 60 days of a rebate computation date, which is the end of the fifth bond year and each five-year period thereafter. In addition, certain exceptions may apply that may limit the rebate amount, and special rules exist relating to retired warrant issues.

The Commission has periodic arbitrage rebate calculations performed on tax-exempt bonds and accrues arbitrage rebates based on those calculations. The Commission obtained arbitrage rebate calculations for the tax-exempt warrants, and there are no accrued arbitrage rebates for Business-Type Activities as of September 30, 2013. However, the Commission entered into a Settlement Agreement in July 2013 with the Internal Revenue Service for all open Business-Type Activities warrant issues arbitrage rebates for $4,500, which was accrued at September 30, 2012. See Note S - Contingent Liabilities and Litigation.

### Restricted Debt Service Accounts

***Business-Type Activities***

In accordance with the Indenture, the Commission maintains a debt service fund to which it deposits principal and interest amounts due. A reserve fund or surety policies are required to be maintained at the lesser of (a) 125 percent of the average annual debt service on all outstanding parity securities, (b) the maximum annual debt service on all outstanding parity securities or (c) 10 percent of the original principal amount of outstanding parity securities. In addition, the Commission is required to maintain a rate stabilization fund at a balance of 75 percent of the maximum annual debt service on the outstanding parity securities, subject to the availability of cash, and a depreciation fund which will grow to an amount equal to or greater than the accumulated depreciation of the Sanitary Operations Fund, subject to the availability of cash.

In accordance with the terms of the Indenture, the Commission obtained surety policies for the reserve fund for certain warrant issues. The rate stabilization fund has no balance at September 30, 2013.

The Trustee can and has authorized disbursements from certain reserve funds held for the Business-Type Activities Warrants for payment of principal and interest due. The Trustee notified the Commission of the failure to maintain or replenish the reserve funds at the levels required under the warrant agreements which resulted in default for these warrant agreements (discussed above).

In addition, the proceeds from each warrant issue were placed in an escrow account to be disbursed based on approved expenditures for the proceeds. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted cash and investments related to the warrant agreements totaled $245,914 at September 30, 2013. See Note D for a discussion of the investments held at year end.

## NOTE J - WARRANTS PAYABLE - Continued

***Governmental Activities***

The proceeds from each warrant issue were placed in an escrow account to be disbursed based on approved expenditures. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. The terms of certain warrant agreements require debt reserve funds to be maintained, and funds may be deposited in debt service accounts pending payment to the Trustee. Such accounts are reported as restricted cash and investments.

Restricted cash and investments totaled $172,112 at September 30, 2013. See Note D for discussion of the investments held at year end.

**Continuing Disclosures**

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

Under the continuing disclosure agreements, the Commission has covenanted for the benefit of the holders of certain warrants under the various indentures to provide certain information repositories with certain financial information and operating data relating to the Commission on an annual basis within 180 days after the end of its fiscal year and material event notices of the occurrence of certain events, if deemed material.

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

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

See the ‘Material Event Notices’ section below for a summary of significant Material Event Notices filed by the Commission.

## 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, | | | |
|---|---|---|---|---|
| | 2013 | 2012 | 2011 | 2010 |
| Active accounts | 140,197 | 140,069 | 139,706 | 140,092 |
| Average daily treatments volume (millions of gallons treated) | 125 | 104 | 98 | 125 |
| Sewer charges (000s) | $158,564 | $159,179 | $173,312 | $160,467 |
| % Revenue - largest customer | 1.65% | 1.63% | 1.61% | 1.49% |
| % Revenue - top 10 customers | 8.04% | 8.07% | 8.31% | 6.40% |

| 2013 Top 10 Customers | Consumption (in Gallons) | Billed |
|---|---|---|
| U.S. Steel | 501,881 | $ 2,622,466 |
| University of Alabama at Birmingham | 469,990 | 3,535,381 |
| Birmingham Housing Authority | 212,395 | 1,597,182 |
| Buffalo Rock Company | 181,976 | 330,304 |
| Coca-Cola Bottling Company | 156,826 | 708,957 |
| Barber’s Pure Milk Company | 127,971 | 849,136 |
| Brookwood Medical Center | 123,639 | 932,934 |
| Trinity Medical Center | 106,205 | 800,091 |
| SMI Steel Inc | 92,441 | 696,326 |
| Samford University | 89,046 | 671,473 |
| | 2,062,370 | $ 12,744,250 |

Effective January 1, 2008, the Commission implemented sewer rate increases in accordance with the Commission's resolutions and the Indenture with the trustee for the Sewer Revenue Warrants. The proper application of the rate covenant is one of the issues in the litigation with the Trustee and bond insurers and part of the Bankruptcy and Restructuring (see Notes S, V and W for discussion of Contingent Liabilities and Litigation, Subsequent Events and Bankruptcy and Restructuring, respectively).

**Municipal Bond Insurance Policy**

Concurrent with the issuance of the warrants, National, Ambac, FGIC, Syncora or AGM issued municipal bond (warrant) insurance policies for all revenue warrant issues, except the Business-Type Fund Sewer Warrant Series 2003-A, Governmental Fund General Obligation Warrant 2001-B and certain Limited Obligation School Warrants Series 2004-A.

The insurance policies unconditionally guarantee the payment of that portion of the principal and interest on the warrants, which becomes due and is unpaid by reason of nonpayment by Jefferson County, Alabama. The insurance policies are noncancelable, and the premium is fully paid at the time of delivery of the warrants.

## NOTE J - WARRANTS PAYABLE - Continued

The insurance policies cover failure to pay principal of said warrants on their respective stated maturity dates or dates on which the same shall have been duly called for mandatory sinking fund redemption and cover failure to pay an installment of interest on the stated date for its payment. However, the policies may not require payments of principal due under accelerated payment schedules when optional tender features are exercised.

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

Certain events occurred during prior years, as discussed below, resulting in rating downgrades for the municipal bond insurers of the warrants. As a result of the deteriorating financial condition of Jefferson County during fiscal 2008 through 2013, certain payments of principal and interest were made on behalf of the Commission by the bond insurers. The amounts paid are disclosed in this report and are currently payable from the Commission to the insurers. As a result, the insurers have assumed certain rights under the terms of the related warrant agreements.

In addition, other payments of principal and interest are due on certain warrants but remain unpaid at September 30, 2013, by the Commission or the insurers. As a result, the Commission has a payment Event of Default for certain warrant agreements - see Events of Default section above.

### Ambac Bankruptcy

On November 8, 2010, Ambac Financial Group, Inc. (a bond insurer for certain warrants of the Commission) petitioned for Chapter 11 bankruptcy. Any reorganization would presumably leave the company’s bond insurance subsidiary, Ambac Assurance Corp., untouched and capable of paying claims on defaulted municipal bonds.

## BUSINESS-TYPE ACTIVITIES

### Material Event Notices

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

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

**NOTE J - WARRANTS PAYABLE - Continued**

The downgrades of Syncora and FGIC caused the Syncora and FGIC surety bonds held by the Trustee in the Reserve Fund to fail the ratings requirements of the Indenture (see Substitution of Surety Bonds in Reserve Fund discussion below). Additionally, certain notices of default were received under the Standby Warrant Purchase Agreements.

Material Event Notices also disclosed ratings downgrades related to GO Series 1997-A, Series 2001-A, Series 2003 B-1-A to B-1-E and Series 2003 C-1 to C-10 Warrants. On September 11, 2008, JPMorgan Chase Bank delivered a Termination Notice to the Trustee pursuant to Section 8.02(b) of the Liquidity Facility for the outstanding Series 2002-A Warrants (as discussed above).

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

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

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

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

The July 6, 2009, Material Event Notice disclosed that for debt service payments due on July 1, 2009, the Trustee applied net sewer revenues from the Commission to the payment of all interest due on the Warrants on such date. Certain Warrants were purchased by a Liquidity Provider pursuant to a Liquidity Facility and are insured by FGIC. Such FGIC-insured Warrants were called for redemption on July 1, 2009, pursuant to the accelerated amortization provision of such Liquidity Facility and were paid from a draw on the FGIC bond insurance policy insuring the payment of such Warrants because the Commission's net sewer revenues were not sufficient to make such payment.

Certain other Warrants were purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on July 1, 2009, pursuant to the accelerated amortization provisions of such Liquidity Facilities. The Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants, and Syncora suspended payment on its insurance policies. As a result, $46,056 aggregate principal amount of Syncora-insured Warrants called for redemption on July 1, 2009, was not paid by either the Commission or Syncora.

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

**NOTE J - WARRANTS PAYABLE - Continued**

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

***October 4, 2010*** **-** The Material Event Notice dated October 4, 2010 disclosed that on October 1, 2010, debt service payments on certain of the Warrants were due. Certain other Warrants were purchased by other Liquidity Providers pursuant to Liquidity Facilities and are insured by bond insurance policies issued by Syncora. Such Syncora-insured Warrants were called for redemption in part on October 1, 2010, pursuant to the accelerated amortization provisions of such Liquidity Facilities. Syncora suspended payment on its insurance policies, and the Commission's net sewer revenues were not sufficient to redeem the Syncora-insured Warrants. As a result, the $46,061 aggregate principal amount of Syncora-insured Warrants called for redemption on October 1, 2010, was not paid by either the Commission or Syncora.

On September 22, 2010, the Circuit Court entered an order granting the Trustee's request for the appointment of a receiver.

**2011 -** During fiscal 2011, Material Event Notices disclosed that on May 2, 2011, the Commission received letters from the Internal Revenue Service (IRS) stating that the Series 2003-B Warrants and the Series 2003-C Warrants were selected for examination to determine compliance with federal tax requirements. See Note S - Contingent Liabilities and Litigation for further discussion and resolution.

The July and October, 2011 and January and April, 2012, Material Event Notices disclosed that payment defaults had occurred on certain of the Series 2002-C and Series 2003-B Warrants that were purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission. Under the terms of the Standby Warrant Purchase Agreements, $46,046 in aggregate principal amount of Warrants was due for accelerated redemption in July and October 2011, $9,135 was due April 2012 and $20,000 was due in July 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption.

The Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). The proposed settlement and refinancing was not accomplished, and the Commission filed for Bankruptcy protection in November 2011.

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

**NOTE J - WARRANTS PAYABLE - Continued**

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

***February 1, 2013*** **-** The February 1, 2013, Material Event Notice disclosed that a payment default had occurred on certain Sewer Capital Improvement and Refunding Warrants (Series 1997-A, Series 2001-A, Series 2002-A, Series 2002-C and Series 2003-B Warrants). Debt service payments on certain of the Warrants were due on February 1, 2013. The Trustee disseminated a Notice to Holders dated February 1, 2013 (the Trustee Notice). Pursuant to an order of the Bankruptcy Court filed on July 2, 2012, the Commission had been remitting the net revenues of the Commission's Sewer System to the Trustee in the manner provided by Article XI of the Trust Indenture.

The Trustee Notice stated that the Trustee decided to hold such net revenues remitted by the Commission and suspend payment of debt service on the Warrants, as well as any draws on insurance policies securing the Warrants, until further notice. In addition, the Trustee Notice described the Trustee's intent to (i) file a complaint for declaratory judgment with the Bankruptcy Court to address disputes regarding interpretation of the Trust Indentures and (ii) file with the Bankruptcy Court a motion for relief from automatic stay in the Chapter 9 Proceeding to permit the Trustee in its discretion to accelerate certain of the Warrants effective as of February 1, 2013.

***February 11, 2013*** **-** The February 11, 2013, Material Event Notice disclosed a ratings downgrade related to the Series 1997-A, 2001-A, 2002-A, 2002-C, 2003-B-8, 2003-B-1A through B-1-E and 2003-C Warrants. On February 8, 2013, the underlying rating assigned to the Warrants by S&P was reduced from "C" to "D."

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

***June 4, 2013*** **-** The June 4, 2013, Material Event Notice disclosed that the Commission adopted a Resolution on June 4, 2013, which includes approval of three separate Plan Support Agreements by and among the Commission and certain holders of the Warrants (JP Morgan Chase Bank, et al; various supporting warrant holders, including equity funds, limited partnerships, etc., and the bond insurers (AGM, FGIC and Syncora), and approved a proposed plan of finance for refinancing the Warrants as provided in the Plan Support Agreements. The Plan Support Agreements (PSAs) discuss the restructuring transactions by and between the Commission and the parties to the PSA agreement and require the Commission to file and exercise all reasonable efforts to expeditiously consummate a Chapter 9 plan of adjustment that incorporates the provisions of each PSA and its corresponding Plan Term Sheet (Acceptable Plan).

**NOTE J - WARRANTS PAYABLE - Continued**

The PSAs also require the supporting warrant holders to use all reasonable efforts to support confirmation of an Acceptable Plan, subject to the Bankruptcy Code; confirms the intention to purchase a portion of the offering of New Sewer Warrants subject to certain terms on a pro rata basis; and calls for a litigation standstill amongst the parties to the PSAs until the effective date of an Acceptable Plan.

***June 27, 2013*** **-** The June 27, 2013, Material Event Notice disclosed that the Commission adopted a Resolution on June 27, 2013, which includes approval of two separate Plan Support Agreements by and among the Commission and certain holders of the sewer warrants (Bank of Nova Scotia, The Bank of New York Mellon, State Street Bank and Trust Company (collectively, the Liquidity Banks) and National, together with and as reinsurer of and administrator for MBIA - see Governmental Activities Section below for further disclosure).

The PSAs discuss the restructuring transactions by and between the Commission and the parties to the PSA agreements and require the Commission to file and exercise all reasonable efforts to expeditiously consummate a Chapter 9 plan of adjustment that incorporates the provisions of each PSA and the Plan Term Sheet (Acceptable Plan). An Acceptable Plan means either the Current Plan or any other Chapter 9 plan of adjustment that otherwise complies with the terms of the PSA and provides a treatment that is at a minimum economically equivalent in all respects to the treatment specified in the Current Plan on account of the Liquidity Banks for full settlement and release of all Liquidity Bank Claims and payment in the aggregate amount equal to the sum of (1) 80 percent of the Adjusted Sewer Warrant Principal Amount of the Liquidity Banks' Bank Warrants; (2) all nondefault rate interest accrued and unpaid on the amount in (1); and (3) and aggregate Bank Warrant Default Interest Settlement Payment of $2,764 in exchange for a release and waiver of Bank Warrant Default Interest claims asserted in an aggregate amount in excess of $20,000.

The PSAs also require the supporting warrant holders to use all reasonable efforts to support confirmation of an Acceptable Plan, subject to the Bankruptcy Code, and call for a litigation standstill amongst the parties to the PSAs until the effective date of an Acceptable Plan.

The Resolution also approved the filing of the Commission's Chapter 9 Plan of Adjustment and a related Disclosure Statement (reported in the July 1, 2013, Material Event Notice - see below).

***July 1, 2013*** **-** The July 1, 2013, Material Event Notice disclosed that the Commission filed a Chapter 9 Plan of Adjustment and a related Disclosure Statement with the Bankruptcy Court. Neither the Plan of Adjustment nor the Disclosure Statement were approved by the Bankruptcy Court at that time, and both documents may be amended, supplemented or modified from time to time by the Commission prior to Bankruptcy Court Approval. See discussion of the Chapter 9 Plan of Adjustment and Disclosure Statement below.

***July 1, 2013*** **-** The July 1, 2013, Material Event Notice disclosed that the Commission provided an update regarding examinations initiated by the United States Department of the Treasury, Internal Revenue Service with respect to the Series 2003-B Warrants and the Series 2003-C Warrants. As a result of ongoing negotiations, the County expected to present a proposed closing agreement between the County and the IRS for approval by the Commission within the next few weeks. See August 21, 2013 Material Event Notice (below) for update.

## NOTE J - WARRANTS PAYABLE - Continued

The Commission expected the closing agreement to extend to all series of the Warrants. The proposed closing agreement had not yet been finally approved by the IRS or the Commission. If the closing agreement is approved and becomes final, a subsequent Notice will be provided by the Commission.

***July 30, 2013*** **-** The July 30, 2013, Material Event Notice disclosed that the Commission approved a Plan Support Agreement with Lehman Brothers Special Financing Inc. (LBSF) on July 23, 2013. The PSA discusses the restructuring transactions by and between the Commission and LBSF and requires the Commission to modify the Current Plan so that it is an Acceptable Plan, which would require certain periodic payments claimed by LBSF of $1,250 to be classified separately and be recoverable to LBSF under the Plan. The PSA provides that other LBSF claim amounts (termination fees and accrued interest related to the swap agreements - See Note K) are not expected to be recovered.

The PSA requires the supporting warrant holders to use all reasonable efforts to support confirmation of an Acceptable Plan, subject to the Bankruptcy Code, and requires an effective date before December 31, 2013, unless otherwise waived, and calls for a litigation standstill amongst the parties to the PSAs until the effective date of an Acceptable Plan.

In addition, the Commission preliminarily approved an amended proposed Financing Plan on July 23, 2013. On July 29, 2013, the Commission filed a revised Plan of Adjustment and a revised Disclosure Statement with the Bankruptcy Court. See Note W - Bankruptcy and Restructuring for discussion of the Chapter 9 Bankruptcy and Proposed Restructuring.

***August 21, 2013*** **-** The August 21, 2013, Material Event Notice disclosed that the Commission entered into a Closing Agreement with the IRS that covers the Series 2003-B and Series 2003-C Sewer Warrants and all other outstanding tax-exempt Sewer Warrants and confirms the tax-exempt status of the Sewer Warrants from the date of issuance through the earlier of the date the Sewer Warrants are retired or June 30, 2015. The Commission has proposed a Plan of Adjustment in the Bankruptcy Proceeding that includes a refunding of the outstanding Sewer Warrants (see Note W – Bankruptcy and Restructuring). The Closing Agreement allows a two-year period to implement the proposed Plan.

### 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.

**NOTE J - WARRANTS PAYABLE - Continued**

One such requirement is that any surety bond or insurance policy used to satisfy the Reserve Fund Requirement must be rated “AAA” by S&P or “Aaa” by Moody’s. As of April 1, 2005, the Reserve Fund was funded by a combination of cash (and eligible federal securities) and surety bonds in the amount of $19,884 provided by FGIC.

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

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

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

On February 1, 2007 and 2008, the Commission withdrew $32,547 and $59,800 of such funds, respectively, for the purpose of debt service on the Sewer Revenue Warrants.

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). As a result of the downgrades to FGIC and related surety bonds, the Commission made monthly cash transfers of $1,657 to the Reserve Fund in fiscal 2008 for the months of April through August (discussed below).

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

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

**NOTE J - WARRANTS PAYABLE - Continued**

A total of $35,089 was drawn from the surety bond policies in the Reserve Fund while the remainder, or $5,829, was cash. The interest payable to the insurers of $35,089 plus additional interest and fees of $13,876 are accrued at September 30, 2013.

As of September 30, 2013, the Reserve Fund holds four surety bonds with a value of $176,082. However, the financial condition and downgrades of certain municipal bond insurers have impacted the value and reliability of the underlying surety bonds. See default section above for related discussion of reserve fund requirements and shortfalls. The balance in funds restricted for debt service or capital improvements as of September 30, 2013 was $29,726.

**GOVERNMENTAL ACTIVITIES**

**Material Event Notices**

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

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

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

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

A Notice of Default dated December 28, 2009, was disclosed related to the LO Series 2004-A, Series 2005-A and Series 2005-B Warrants. Additionally, a Material Event Notice disclosed a payment event of default related to the GO Series 2001-B Warrants after the Forbearance Agreement expired in January 2010, and the Warrants were not redeemed as required by the accelerated redemption provisions of the Standby Warrant Purchase Agreement.

***2011*** **-** The December 13, 2010, Material Event Notices disclosed a ratings downgrade related to the GO Series 2001-A Warrants, LO Series 2005-A and Series 2005-B Warrants and LR Series 2006 Warrants, all insured by Ambac. On November 30, 2010, the rating assigned to Ambac by S&P was withdrawn. Pursuant to S&P's rating policy, the Ambac insured Warrants are rated to the higher of the Standard & Poor's Underlying Rating (SPUR) or the insurer rating.

**NOTE J - WARRANTS PAYABLE - Continued**

The March 29, 2011, Material Event Notice disclosed a payment event of default related to the GO Series 2001-B Warrants. On March 15, 2011, GO Series 2001-B Warrants were not redeemed by the Commission, as required under the accelerated redemption provisions of the Standby Warrant Purchase Agreement.

The April 13 and April 27, 2011, Material Event Notices disclosed ratings downgrades related to the LO Series 2005-A and 2005-B Warrants and LR Series 2006 Warrants, insured by Ambac. On April 7, 2011, the ratings assigned to Ambac by Moody's were withdrawn. Pursuant to Moody's rating policy, the Ambac insured Warrants are rated to the higher of the SPUR or the insurer rating.

The Commission adopted a resolution and executed and released the Proposed Terms and Conditions for Settlement and Refinancing of Jefferson County's Outstanding Sewer Warrants dated September 14, 2011 (the Term Sheet). The proposed settlement and refinancing was not accomplished, and the Commission filed for Bankruptcy protection in November 2011.

***2012 -*** The November 9, 2011, Material Event Notice disclosed that the Commission authorized the filing of a petition for relief under Chapter 9 of the United States Bankruptcy Code on behalf of and in the name of Jefferson County. The petition was filed with the United States Bankruptcy Court for the Northern District of Alabama, Southern Division.

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

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

The November 18, 2011, Material Event Notice also disclosed a ratings downgrade related to the LO School Warrants (LO Series 2005-A and 2005-B Warrants) and the LR Series 2006 Warrants insured by Ambac. On November 11, 2011, the underlying rating assigned to the LO School Warrants by S&P was reduced from "BBB-" to "B" and the rating assigned to the LR Series 2006 Warrants by S&P was reduced from "B-" to "C."

***December 1, 2011 -*** The December 1, 2011, Material Event Notice disclosed the appointment of Wells Fargo Bank, N.A. as successor trustee (the "Successor Trustee") for the GO Series 2001-B Warrants effective November 23, 2011.

***March 30, 2012 -*** The March 30 and April 6, 2012, Material Event Notices disclosed the Commission announcement that it would not make the principal and interest payments on the GO Series 2001-B, 2003-A and 2004-A Warrants due April, 2012. The Commission adopted a resolution instructing the county Manager to forego paying the April 2012 payments. Certain of the Warrants are insured by National.

**NOTE J - WARRANTS PAYABLE - Continued**

The Commission expects to suspend payment on the Warrants until debt service on the Warrants can be restructured under the Commission's Plan of Adjustment under Chapter 9.

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

In addition, the Notice disclosed that the underlying rating assigned to the GO Series 2001-B, 2003-A and 2004-A Warrants by Moody's was reduced from "Caa1" to "Caa3." On April 4, 2012, the underlying rating assigned to the National-insured Warrants by S&P was reduced from "C" to "D."

***March 30, 2012*** **-** The March 30, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission failed to make the April 1, 2012, required lease principal payment in the amount of $4,130 and interest payment in the amount of $2,081 related to the LR Series 2006 Warrants. Under the Lease Agreement, the Commission is required to make payments to the Trustee, for the account of the Authority, on the third business day prior to any day on which debt service is payable on the Warrants. The Commission expects that the Trustee will draw upon available monies on deposit in the Reserve Fund established under the Indenture to pay the principal and interest due on April 1, 2012.

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

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

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

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

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

**NOTE J - WARRANTS PAYABLE - Continued**

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

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

***October 8, 2012*** **-** The October 8, 2012, Material Event Notice disclosed that the Commission received a letter from the Internal Revenue Service (IRS) stating that an examination has been initiated of the Lease Revenue Warrants, Series 2006 to determine compliance with federal tax requirements. If the IRS determines that federal tax laws or regulations applicable to the Series 2006 Warrants have been violated, interest on the said Warrants could be declared taxable, and a tax liability could be assessed against the holders of all or some portion of the said Warrants.

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

***February 15, 2013*** **-** The February 15, 2013, Material Event Notice disclosed that the Commission has entered into a Plan Support Agreement (PSA) dated as of February 11, 2013, between the Commission and Depfa Bank PLC, as holder of the entire outstanding principal amount of the Commission's LO Series 2005-B Warrants. Under the terms of the PSA, the Commission has agreed to direct the Indenture Trustee (U.S. Bank) to utilize excess sales tax proceeds on hand and any future excess sales tax proceeds to make mandatory redemption payments for the LO Series 2005-B Warrants held by Depfa Bank PLC (under a standby warrant purchase agreement) in March 2013 and annually thereafter. In addition, the Commission agreed to forego directing the Indenture Trustee to credit any previous excess sales tax proceeds towards the LO Series 2005-B Warrants scheduled for redemption pursuant to the amortization schedule. As part of the proposed plan, Depfa Bank PLC has agreed to reduce the interest rate on the Warrants to prime rate plus 2.25 percent, and all Events of Default and cross defaults existing now or through the effective date of this plan for the Standby Warrant Purchase Agreements with Depfa Bank PLC shall be deemed waived without any requirement that the Commission take any action to cure or otherwise eliminate any such Event of Default.

## NOTE J - WARRANTS PAYABLE - Continued

***March 6, 2013*** **-** The March 6, 2013, Material Event Notice disclosed a rating downgrade related to the GO Series 2003-A, 2004-A and 2001-B warrants insured by National (formerly MBIA). On February 28, 2013, the insured rating assigned to the National-insured Warrants by S&P was reduced from "BBB" to "BB" in conjunction with the corresponding reduction in such rating agency's financial strength and financial enhancement rating of National. The current insured rating of the National-insured Warrants is classified as "Outlook Developing" by S&P.

***April 2, 2013*** **-** The April 2, 2013, Material Event Notice disclosed a payment default for certain payments on Warrants due on April 1, 2013. The debt service payments for certain of the Warrants insured by National, including the GO Series 2003-A and 2004-A Warrants, were paid by draws on the National policies insuring such Warrants. The Commission expects to suspend further debt service payments on the Warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9 (see Note W - Bankruptcy and Restructuring).

***May 16, 2013*** **-** The May 16, 2013, Material Event Notice disclosed a rating upgrade related to the GO Series 2003-A and 2004-A Warrants insured by National (formerly MBIA). On May 8, 2013, the insured rating assigned to the National-insured Warrants by S&P was raised from "BB" to "BBB" in conjunction with the corresponding upgrade in such rating agency's financial strength and financial enhancement rating of National. The insured rating of the National-insured Warrants is classified as "Credit Watch Positive" by S&P.

On May 10, 2013, the insured rating assigned to the National-insured Warrants by S&P was again raised from "BBB" to "A" in conjunction with the corresponding upgrade in such rating agency's financial strength and financial enhancement rating of National. The current insured rating of the National-insured Warrants is classified as "Outlook Stable" by S&P.

***May 17, 2013*** **-** The May 17, 2013, Material Event Notice disclosed that the Commission has entered into a Plan Support Agreement (PSA) dated as of May 13, 2013, with Bayerische Landesbank Girozentrale (Bayerische), JPMorgan Chase Bank, N.A. (JPMorgan) and Wells Fargo Bank NA, as indenture trustee for the Series 2001-B Warrants. Bayerische and JPMorgan hold the entire outstanding principal amount of the Series 2001-B Warrants.

Under the terms of the PSA, the Commission shall propose and pursue confirmation of an Acceptable Plan that includes (a) a separate class for the GO 2001-B Warrants and any related claims, (b) all claims in the Series 2001-B GO Class will be allowed and (c) in full and final satisfaction, the Banks will receive their pro rata share of replacement warrants issued under the Acceptable Plan and governed by an amended and restated indenture acceptable to the Indenture Trustee and the Banks and will (i) include two separate series in the amounts of each bank's claim, (ii) be payable in amounts and dates specified in the amortization schedule included in the PSA, (iii) all debt will have a final maturity date of April 1, 2021, (iv) the New Warrants will bear interest at a base rate equal to the Wall Street Journal Prime Rate plus 1.65 percent per annum, (v) the New Warrants will not be subject to optional redemption prior to the fifth anniversary of the Effective Date and (vi) the GO Swap Agreement Claim will be classified in a separate class and the Commission shall pay JPMorgan $10 in full and final satisfaction on the effective date and other miscellaneous terms. The New Warrants will constitute a general obligation of the Commission.

**NOTE J - WARRANTS PAYABLE - Continued**

***May 29, 2013* -** The May 29, 2013, Material Event Notice disclosed a rating upgrade related to the GO Series 2003-A, 2004-A and 2001-B warrants insured by National (formerly MBIA). On May 29, 2013, the insured rating assigned to the National-insured Warrants by Moody's was raised from "Baa2" to "Baa1" in conjunction with the corresponding upgrade in such rating agency's financial strength and financial enhancement rating of National. The insured rating of the National-insured Warrants is classified as "Positive Outlook" by Moody's.

***July 29, 2013* -** The July 29, 2013, Material Event Notice disclosed that the Jefferson County Public Building Authority was notified via letter dated July 23, 2013, that the Internal Revenue Service has completed an examination of the Authority's Lease Revenue Warrants, Series 2006. The letter indicates that the examination has been closed with no change to the position that interest received by the holders of the Series 2006 Warrants is excludable from gross income under Section 103 of the Internal Revenue Code.

***July 30, 2013* -** The July 30, 2013, Material Event Notice disclosed that the Commission preliminarily approved an amended proposed Financing Plan on July 23, 2013. On July 29, 2013, the Commission filed a revised Plan of Adjustment and a revised Disclosure Statement with the Bankruptcy Court. A hearing at which the Bankruptcy Court will consider whether to approve the Disclosure Statement has been scheduled for August 6, 2013. See Note W for discussion of the Chapter 9 Bankruptcy and Restructuring.

***Subsequent Events***
Events subsequent to year end that may impact the warrants payable are discussed in Note V - Subsequent Events, including additional Material Event Notices. The Commission filed Chapter 9 Bankruptcy in November 2011. See Note W - Bankruptcy and Restructuring for the bankruptcy terms and restructuring plan. The bankruptcy restructuring was confirmed by the Court on November 22, 2013. All of the existing Business Enterprise (sewer) warrants and one series of Governmental Obligation Warrants (Series 2001-B) were refunded and new warrants were issued as part of the bankruptcy restructuring in December 2013. The new warrants issued, including balances, repayment terms and a description of each issue are included in Note L - Issuance of New Warrants.

## NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS (amounts in thousands)

The Commission's asset/liability strategy was to have a mixture of fixed and variable rate debt. During fiscal years ended 2001 to 2003, the Commission decided to synthetically create fixed rate debt by entering into certain interest rate swap agreements that effectively changed the interest rates on certain warrants from variable rates to fixed rates. The Commission subsequently entered into additional interest rate swap agreements and related swap option agreements (swaptions) in an effort to hedge more effectively interest costs on the warrants outstanding.

In connection with the issuance of the Sewer Revenue Warrants, the Commission entered into various interest rate swap transactions, all of which were terminated prior to September 30, 2013.

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.

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

All of the interest rate swap agreements were terminated prior to September 30, 2009; therefore, the fair value of the interest rate swap agreements as of September 30, 2013, was estimated using the Market Quotation Method (termination payment notice fee plus accrued interest).

### Valuation
Interest rate swap agreements generally have a fair value associated with each agreement, based on the original terms of the agreements and the relationship to interest rates in the current market. However, as noted above, the interest rate swap agreements were terminated, so the reported fair value consists of any termination fees payable plus any related accrued interest.

### Termination Events
Certain events occurred during fiscal 2009 and 2008 in connection with the interest rate swap agreements that triggered additional termination events for the various interest rate swap agreements. The additional termination events gave the counterparty to each agreement the right for early termination of the interest rate swap agreements, and all interest rate swap agreements were terminated prior to September 30, 2009.

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

As a result of the additional termination events and related developments affecting the warrants, the Commission entered into separate Forbearance Agreements with each of the counterparties, and payments on the interest rate swap transactions were temporarily suspended. However, all such agreements expired in 2009, and all payments under the swap agreements then became due and payable to the counterparties.

Following is a summary of the estimated fair value of the terminated interest rate swap agreements the Commission executed with counterparties that have amounts payable at September 30, 2013 (all terminated prior to September 30, 2009):

| Issue and Counterparty | Original Notional Amount | Termination Date | Termination Payment Notice - (Payment) Receipt | Amount Waived Per Litigation Settlements | Accrued Interest | Estimated Fair Value - (Negative) |
|---|---|---|---|---|---|---|
| **Business-Type Activities** | | | | | | |
| Series 2002-A Warrants: | | | | | | |
| JPMorgan Chase Bank | $ 110,000 | 3/3/2009 | $ (37,857) | $ 37,857 | $ - | $ - |
| Bear Stearns | 110,000 | 3/3/2009 | (25,835) | NA | (203) | (26,038) |
| Series 2002-C Warrants: | | | | | | |
| JPMorgan Chase Bank | 539,446 | 3/3/2009 | (153,756) | 153,756 | - | - |
| Bank of America | 110,000 | 7/15/2008 | (11,866) | 11,866 | - | - |
| Lehman Brothers | 190,054 | 12/15/2008 | (68,568) | NA | (12,880) | (81,448) |
| Bear Stearns | 824,700 | 3/3/2009 | 10,524 | NA | 226 | 10,750 |
| Series 2003-B Warrants: | | | | | | |
| JPMorgan Chase Bank | 1,035,800 | 3/3/2009 | (255,717) | 255,717 | - | - |
| Bear Stearns | 633,078 | 3/3/2009 | 6,250 | NA | 174 | 6,424 |
| Bank of America | 379,847 | 7/15/2008 | (2,560) | 2,560 | - | - |
| Series 2003-C Warrants: | | | | | | |
| JPMorgan Chase Bank | 789,019 | 3/3/2009 | (194,224) | 194,224 | - | - |
| Bank of America | 263,006 | 7/15/2008 | (16,763) | 16,763 | - | - |
| Series 1997-A, 2001-A, 2002-C: | | | | | | |
| JPMorgan Chase Bank | 200,000 | 3/3/2009 | (3,500) | 3,500 | - | - |
| Series 1997-A, 2002-C, 2003-B: | | | | | | |
| JPMorgan Chase Bank | 175,000 | 3/3/2009 | (2,750) | 2,750 | - | - |
| | 5,359,950 | | (756,622) | 678,993 | (12,683) | (90,312) |
| **Governmental Activities** | | | | | | |
| Series 2001-B Warrants: | | | | | | |
| JPMorgan Chase Bank | 120,000 | 9/4/2008 | (7,894) | - | (1,712) | (9,606) |
| | $5,479,950 | | $ (764,516) | $ 678,993 | $ (14,395) | $ (99,918) |

All such interest rate swap agreements were terminated. See the "Interest Rate Swap Agreements Termination Events" section below for further disclosures regarding the termination of the interest rate swap agreements.

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

## BUSINESS-TYPE ACTIVITIES

### Interest Rate Swap Agreements Termination Events

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

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

The Commission received a notice from Bear Stearns dated March 2, 2009, designating March 3, 2009, as the Early Termination Date under the swap agreements, with regards to each of the interest rate swap transactions between Bear Stearns and the Commission. The termination event resulted in $9,061 of termination fees due to Bear Stearns.

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

### Legal Settlement - JP Morgan Chase Bank

The termination event resulted in $647,804 of termination fees due to JPMorgan Chase Bank. JPMorgan Chase Bank waived the termination fees on November 4, 2009 as part of a legal settlement with the Securities and Exchange Commission (SEC) and the Commission.

### Legal Settlement - Wachovia Bank, N.A.

The Securities and Exchange Commission filed a Complaint, and Wachovia Bank, N.A., now known as Wells Fargo Bank, N.A., successor by merger, consented to a Final Judgment without admitting or denying the allegations of the complaint related to certain warrant transactions that included the Commission Series 2003-B Warrants and related interest rate swap derivative transactions, resulting in two legal settlement payments totaling $5,978 that were paid to the Commission in December 2011.

### Legal Settlement - Bank of America Corporation

The Commission elected to participate in a settlement agreement with Bank of America Corporation (BAC) and various states' Attorney Generals regarding certain Sewer Revenue Warrants and the related interest rate swap derivative transactions, resulting in a legal settlement of $2,281 paid to the Commission in March 2012. In addition to the settlement funds and as additional consideration for the release by the Commission, BAC further releases and forgave its claim for the hedge fund payment amount and any related interest, fees or charges of $31,189 termination fees plus approximately $4,500 of accrued interest.

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

The Commission has not made any payments with regards to the interest rate swap termination fees and accrued interest. The ultimate settlement of termination fees and related accrued interest are included in certain Plan Support Agreements as part of the Chapter 9 Bankruptcy Plan - see Note W - Bankruptcy and Restructuring.

## GOVERNMENTAL ACTIVITIES

***General Obligation Warrants, Series 2001-B***

The Commission entered into an interest rate swap agreement in connection with its $120,000 variable rate revenue warrants in April 2001 with JPMorgan Chase Bank that was terminated on September 4, 2008.

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

Due to the downgrades of the Commission's underlying ratings on the long-term general obligation indebtedness (as discussed above in the Material Events Notices section), along with the failure to post collateral or provide insurance, an Additional Termination Event on the Swap Agreement occurred during August 2008. With the occurrence of the Additional Termination Event, the counterparty had the right, exercisable at its discretion, to terminate its swap transaction upon notice to the Commission. When the counterparty exercised its right to terminate, the Commission was obligated to pay the resulting termination payment in accordance with the provisions of the Interest Rate Swap Agreement. The termination of the interest rate swap agreement resulted in an additional termination payment that would be due to the counterparty.

**Interest Rate Swap Agreements Termination Events**

The Commission received a notice from JPMorgan Chase Bank dated August 27, 2008, designating September 4, 2008, as the Early Termination Date under the GO Series 2001-B Warrants Interest Rate Swap Agreement. The termination event resulted in $7,894 of termination fees due to JPMorgan Chase Bank.

The Commission has not made any payments with regards to the interest rate swap termination fees and accrued interest. The ultimate settlement of termination fees and related accrued interest is included in the Plan Support Agreement as part of the Chapter 9 Bankruptcy Plan - see Note W - Bankruptcy and Restructuring.

## NOTE L - ISSUANCE OF NEW WARRANTS (amounts in thousands)

Subsequent to year end, the Commission issued various warrants pursuant to the Commission's Plan of Adjustment (Note W - Bankruptcy and Restructuring). Warrants issued since September 30, 2013 consist of the following:

| | |
|---|---|
| ***Business-Type Activities:*** | |
| Senior Lien Sewer Revenue Current Interest Warrants, Series 2013-A, with interest paid semiannually at fixed rates ranging from 5.00% to 5.50% and principal payments due from 2044 to 2054 | $ 395,005 |
| Senior Lien Sewer Revenue Capital Appreciation Warrants, Series 2013-B, with interest accreting and compounding semiannually at fixed rates of 5.625% to 6.625% to maturity, with accreted value (principal and interest) payments due from 2026 to 2037 | 55,000 |
| Senior Lien Sewer Revenue Convertible Capital Appreciation Warrants, Series 2013-C, with interest compounding semiannually at fixed rates of 6.50% to 6.90% to October 1, 2023, and thereafter interest paid semiannually with accreted value payments (principal and interest) due from 2038 to 2051 | 149,998 |
| Subordinate Lien Sewer Revenue Current Interest Warrants, Series 2013-D, with interest paid semiannually at fixed rates ranging from 5.00% to 7.00% and principal payments due from 2016 to 2054 | 810,915 |
| Subordinate Lien Sewer Revenue Capital Appreciation Warrants, Series 2013-E, with interest accreting and compounding semiannually at fixed rates of 6.50% to 6.90% to maturity, with accreted value (principal and interest) payments due from 2029 to 2037 | 50,272 |
| Subordinate Lien Sewer Revenue Convertible Capital Appreciation Warrants, Series 2013-F, with interest accreting and compounding semiannually at fixed rates of 7.50% to 7.90% to October 1, 2023, and thereafter interest paid semiannually with accreted value payments (principal and interest) due from 2037 to 2051 | 324,297 |
| | $ 1,785,487 |
| ***Governmental Activities:*** | |
| General Obligation Warrants, Series 2013-A, with interest paid semiannually at a fixed rate of 4.90% and principal payments due annually from 2014 to 2021 | $ 47,245 |
| Taxable General Obligation Warrants, Series 2013-B, with interest paid semiannually at a fixed rate of 4.90% and principal payments due annually from 2014 to 2017 | 5,630 |
| General Obligation Warrants, Series 2013-C, with interest paid semiannually at a fixed rate of 4.90% and principal payments due annually from 2014 to 2021 | 46,575 |
| Taxable General Obligation Warrants, Series 2013-D, with interest paid semiannually at a fixed rate of 4.90% and principal payments due annually from 2014 to 2017 | 5,550 |
| | $ 105,000 |

**NOTE L - ISSUANCE OF NEW WARRANTS - Continued**

**BUSINESS-TYPE ACTIVITIES**

As of September 30, 2013, the following sewer-related warrants were outstanding under the Indenture: the Series 1997-A Warrants, the Series 2001-A Warrants, the Series 2002-A Warrants, the Series 2002-C Warrants, the Series 2003-A Warrants, the Series 2003-B Warrants and the Series 2003-C Warrants (together, the Retired Sewer Warrants). See Note J - Warrants Payable for a description of the Retired Sewer Warrants.

On December 3, 2013, the Commission entered into a Trust Indenture between the County and Wells Fargo Bank, National Association as trustee (the New Sewer Trustee) dated as of December 1, 2013 (as supplemented by the First Supplemental Indenture, hereinafter defined, the New Sewer Indenture), whereby the Commission issued its new Sewer Revenue Warrants, Series 2013-A through Series 2013-F, in the aggregate principal amount of $1,785,487 (the New Sewer Warrants). Pursuant to the Commission's Plan of Adjustment (see Note W - Bankruptcy and Restructuring for a discussion of the Plan of Adjustment), the net proceeds of the New Sewer Warrants were used to (i) pay the Retired Sewer Warrants and pay certain claims under the Commission's Plan of Adjustment, (ii) pay the premium for a municipal bond insurance policy issued by AGM and (iii) pay a portion of the costs of issuing the New Sewer Warrants.

The New Sewer Warrants 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) collected from the Commission's sanitary sewer system (the System Revenues) and, further, (i) money and investments from time to time on deposit in, or forming a part of, the Revenue Fund, the Operating Account, the Costs of Issuance Fund and the Capital Improvement Fund established under the New Sewer Indenture, and (ii) any other property which may, from time to time, be specifically subjected to the lien of the New Sewer Indenture as additional security for the New Sewer Warrants (together with the System Revenues, the General Trust Estate).

The New Sewer Warrants Series 2013-A, Series 2013-B and Series 2013-C (the Series 2013 Senior Lien Warrants) have a first priority lien with respect to the right of payment from the General Trust Estate and are additionally secured by funds and amounts held in the Series 2013 Senior Lien Reserve Fund and the Series 2013 Senior Lien Debt Service Fund established under the New Sewer Indenture. Upon issuance of the Series 2013 Senior Lien Warrants, an irrevocable standby letter of credit (the Series 2013 Senior Lien Reserve Fund Letter of Credit) issued by JPMorgan Chase Bank National Association (JPMorgan Chase Bank) was delivered to the New Sewer Trustee. Upon the occurrence of certain events described in the New Sewer Indenture, the New Sewer Trustee shall deliver to JPMorgan Chase Bank limited obligation warrants pursuant to a First Supplemental Indenture dated December 1, 2013 between the County and the New Sewer Trustee (the First Supplemental Indenture), payable from and secured by the General Trust Estate on parity with the Series 2013 Senior Lien Warrants. Such limited obligation warrants shall evidence the obligation of the Commission to reimburse JPMorgan Chase Bank for drawings honored on the Series 2013 Senior Lien Reserve Fund Letter of Credit.

## NOTE L - ISSUANCE OF NEW WARRANTS - Continued

The New Sewer Warrants Series 2013-D, Series 2013-E and Series 2013-F (the Series 2013 Subordinate Lien Warrants) have a second priority lien with respect to the right of payment from the General Trust Estate, subordinate to the Series 2013 Senior Lien Warrants and any additional obligations hereafter issued on parity with the Series 2013 Senior Lien Warrants pursuant to the New Sewer Indenture. The Series 2013 Subordinate Lien Warrants are additionally secured by funds and amounts held in the Series 2013 Subordinate Lien Reserve Fund and the Series 2013 Subordinate Lien Debt Service Fund established under the New Sewer Indenture.

Upon issuance of the Series 2013 Subordinate Lien Warrants, an irrevocable standby letter of credit (the Series 2013 Subordinate Lien Reserve Fund Letter of Credit) issued by JPMorgan Chase Bank was delivered to the New Sewer Trustee. Upon the occurrence of certain events described in the New Sewer Indenture, the New Sewer Trustee shall deliver to JPMorgan Chase Bank limited obligation warrants pursuant to the First Supplemental Indenture, payable from and secured by the General Trust Estate on parity with the Series 2013 Subordinate Lien Warrants. Such limited obligation warrants shall evidence the obligation of the Commission to reimburse JPMorgan Chase Bank for drawings honored on the Series 2013 Subordinate Lien Reserve Fund Letter of Credit.

The New Sewer 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.

## GOVERNMENTAL ACTIVITIES

***General Obligation Warrants***

Pursuant to the Commission's Plan of Adjustment (see Note W - Bankruptcy and Restructuring for a discussion of the Plan of Adjustment), the Commission issued its General Obligation Warrants, Series 2013-A and Series 2013-B, in the aggregate principal amount of $52,875 on December 3, 2013 (the GO Warrants, Series 2013-A/B). The GO Warrants, Series 2013-A/B were issued pursuant to a Trust Indenture dated as of December 1, 2013 (the 2013-A/B GO Indenture) between the County and UMB Bank, n.a. as trustee (the 2013 GO Trustee). The Commission also issued its General Obligation Warrants, Series 2013-C and Series 2013-D in the aggregate principal amount of $52,125 on December 3, 2013 (the GO Warrants, Series 2013-C/D, and together with the GO Warrants, Series 2013-A/B, the 2013 GO Warrants). The GO Warrants, Series 2013-C/D were issued pursuant to a Trust Indenture dated as of December 1, 2013 (the 2013-C/D GO Indenture, and together with the 2013-A/B GO Indenture, the 2013 GO Indenture) between the County and the 2013 GO Trustee.

Upon the issuance of the 2013 GO Warrants, the Commission exchanged such Warrants for the $105,000 aggregate principal amount of GO Series 2001-B Warrants then outstanding and held by the GO Series 2001-B Liquidity Providers. See Note J - Warrants Payable for a description of the GO Series 2001-B Warrants. The 2013-A/B GO Warrants were exchanged for GO Series 2001-B Warrants held by Bayerische Landesbank, New York Branch. The 2013-C/D GO Warrants were exchanged for GO Series 2001-B Warrants held by JPMorgan Chase Bank, N.A. The GO Series 2001-B Warrants were retired by the Commission simultaneously with the 2013 GO Warrant exchange.

## NOTE L - ISSUANCE OF NEW WARRANTS - Continued

The Series 2013 GO Warrants are general obligations of the Commission and are payable out of the general fund by the Commission. Repayment of the outstanding Series 2013 GO Warrants is secured by the full faith and credit of the County.

The 2013 GO 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.

## BUSINESS-TYPE ACTIVITIES

***New Sewer Warrants***

***Senior Lien Sewer Revenue Current Interest Warrants, Series 2013-A***

The Commission issued $395,005 of tax-exempt Series 2013-A Warrants under the New Sewer Indenture on December 3, 2013. The Series 2013-A Warrants were issued in the form of current interest obligations with interest payable semiannually at fixed rates on April 1 and October 1 of each year to and including maturity on October 1, 2053.

The Series 2013-A Warrants are subject to redemption at the option of the Commission on or after October 1, 2023 and mature or are subject to mandatory redemption in fiscal years 2044 through 2054. The Series 2013-A Warrants are insured by AGM pursuant to a bond insurance policy issued simultaneously with the Warrants.

***Senior Lien Sewer Revenue Capital Appreciation Warrants, Series 2013-B***

The Commission issued $55,000 of tax-exempt Series 2013-B Warrants under the New Sewer Indenture on December 3, 2013. The Series 2013-B Warrants were issued in the form of capital appreciation obligations with interest scheduled to accrete and compound semiannually at fixed rates on April 1 and October 1 of each year to maturity.

The accreted value of the Series 2013-B Warrants (principal and interest) are subject to redemption at the option of the Commission on or after October 1, 2023, and subject to mandatory redemption annually on October 1 each year from fiscal year 2026 to 2037. The Series 2013-B Warrants are insured by AGM pursuant to a bond insurance policy issued simultaneously with the Warrants.

***Senior Lien Sewer Revenue Convertible Capital Appreciation Warrants, Series 2013-C***

The Commission issued $149,998 of tax-exempt Series 2013-C Warrants under the New Sewer Indenture on December 3, 2013. The Series 2013-C Warrants were issued in the form of capital appreciation obligations that will automatically convert to current interest obligations on October 1, 2023. Interest on the Series 2013-C Warrants is scheduled to accrete and compound semiannually at fixed rates on April 1 and October 1 of each year to October 1, 2023, at which time such accreted interest will be added to principal and, thereafter, interest on such principal is scheduled to be paid semiannually on each April 1 and October 1 to maturity.

**NOTE L - ISSUANCE OF NEW WARRANTS - Continued**

The Series 2013-C Warrants are subject to redemption at the option of the Commission on or after October 1, 2023, and mature or are subject to mandatory redemption of accreted values (principal and interest) from fiscal year 2038 to 2051. The Series 2013-C Warrants are insured by AGM pursuant to a bond insurance policy issued simultaneously with the Warrants.

***Subordinate Lien Sewer Revenue Current Interest Warrants, Series 2013-D***
The Commission issued $810,915 of tax-exempt Series 2013-D Warrants under the New Sewer Indenture on December 3, 2013. The Series 2013-D Warrants were issued in the form of current interest obligations with interest payable semiannually on April 1 and October 1 of each year at fixed rates to October 1, 2042.

The Series 2013-D Warrants are subject to redemption at the option of the Commission on or after October 1, 2023, and mature or are subject to mandatory redemption from fiscal year 2016 to 2054.

***Subordinate Lien Sewer Revenue Capital Appreciation Warrants, Series 2013-E***
The Commission issued $50,272 of tax-exempt Series 2013-E Warrants under the New Sewer Indenture on December 3, 2013. The Series 2013-E Warrants were issued in the form of capital appreciation obligations with interest scheduled to accrete and compound semiannually on April 1 and October 1 of each year at fixed rates to maturity.

The Series 2013-E Warrants are subject to redemption at the option of the Commission on or after October 1, 2023, and are subject to mandatory redemption of accreted value (principal and interest) from fiscal year 2029 to 2037.

***Subordinate Lien Sewer Revenue Convertible Capital Appreciation Warrants, Series 2013-F***
The Commission issued $324,297 of tax-exempt Series 2013-F Warrants under the New Sewer Indenture on December 3, 2013. The Series 2013-F Warrants were issued in the form of capital appreciation obligations that will automatically convert to current interest obligations on October 1, 2023. Interest on the Series 2013-F Warrants is scheduled to accrete and compound semiannually on April 1 and October 1 of each year at fixed rates to October 1, 2023, at which time such accreted interest will be added to principal and, thereafter, interest on such principal is scheduled to be paid semiannually on each April 1 and October 1 to and including maturity.

The Series 2013-F Warrants are subject to redemption at the option of the Commission on or after October 1, 2023, and are subject to mandatory redemption of accreted values (principal and interest) from fiscal year 2037 to 2051.

## NOTE L - ISSUANCE OF NEW WARRANTS - Continued

## GOVERNMENTAL ACTIVITIES

### *2013 GO Warrants*

***General Obligation Warrants, Series 2013-A***

The Commission issued $47,245 of tax-exempt GO Series 2013-A Warrants under the 2013-A/B GO Indenture on December 3, 2013. The GO Series 2013-A Warrants were issued in the form of current interest obligations with interest payable semiannually on April 1 and October 1 of each year at fixed rates to April 1, 2021.

The GO Series 2013-A Warrants are subject to redemption at the option of the Commission on or after December 3, 2018, and subject to mandatory redemption annually from fiscal year 2014 to 2021.

***General Obligation Warrants, Series 2013-B***

The Commission issued $5,630 of taxable GO Series 2013-B Warrants under the 2013-A/B GO Indenture on December 3, 2013. The GO Series 2013-B Warrants were issued in the form of current interest obligations with interest payable semiannually on April 1 and October 1 of each year to and including maturity on April 1, 2017.

The GO Series 2013-B Warrants are subject to mandatory redemption annually from fiscal year 2014 to 2017.

***General Obligation Warrants, Series 2013-C***

The Commission issued $46,575 of tax-exempt GO Series 2013-C Warrants under the 2013-C/D GO Indenture on December 3, 2013. The GO Series 2013-C Warrants were issued in the form of current interest obligations with interest payable semiannually on April 1 and October 1 of each year to and including maturity on April 1, 2021.

The GO Series 2013-C Warrants are subject to redemption at the option of the Commission on or after December 3, 2018, and subject to mandatory redemption annually from fiscal year 2014 to 2021.

***General Obligation Warrants, Series 2013-D***

The Commission issued $5,550 of taxable GO Series 2013-D Warrants under the 2013-C/D GO Indenture on December 3, 2013. The GO Series 2013-D Warrants were issued in the form of current interest obligations with interest payable semiannually on April 1 and October 1 of each year at fixed rates to maturity on April 1, 2017.

The GO Series 2013-D Warrants are subject to mandatory redemption annually from fiscal year 2014 to 2017.

## 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, 2013. 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, 2013, the Commission's annual pension contribution of $7,124,000 was equal to the Commission's required and actual contribution. The required contribution was determined using the "entry age normal" method. The actuarial assumptions as of October 1, 2013, the latest actuarial valuation date, were: (a) 7.0-percent investment rate of return on present and future assets and (b) projected salary increases of 4.25 to 7.25 percent. Both (a) and (b) include an inflation component of 3.25 percent.

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, 2013, was 10 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 |
|---|---|---|---|
| 09/30/2013 | $ 6,893 | 100% | $ - |
| 09/30/2012 | 7,744 | 100% | - |
| 09/30/2011 | 8,923 | 100% | - |

## NOTE M - DEFINED BENEFIT PENSION PLAN - Continued

### Funding Progress

For the year ended September 30, 2013, 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] |
|---|---|---|---|---|---|---|
| 09/30/13 | $ 955,105 | $ 929,234 | $ (25,871) | 102.78% | $ 107,002 | (24.18%) |

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

## NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS)

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

Benefits are generally available at the earliest of the following:

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

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

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

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

*Benefit Types:* Medical and prescription drug benefits are provided to all eligible retirees. Dependents of eligible retirees are granted the same benefits as the retiree. OPEB benefits include postemployment benefits of health, prescription drug, dental, vision and life insurance coverage for retirees; long-term care coverage, life insurance and death benefits that are not offered as part of a pension plan; and long-term disability insurance for employees. These benefits are typically financed on a pay-as-you-go basis. GAAP requires accrual-basis accounting, thereby recognizing the employer cost of postemployment benefits over an employee’s career.

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

As of September 30, 2013, the most recent actuarial valuation date, the OPEB had 561 retired participants. The OPEB Plan had a total of 2,087 and 56 active participants and vested terminated participants, respectively. The Commission subsidizes a portion of the retirees’ health care insurance premiums based on the total years of County service and age at retirement. The Commission’s subsidy for each covered retired employee ranges from $383 to $1,026 per month, and total insurance premiums range from $510 to $1,367.

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

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

*Funding Policy* - The Commission has not set aside assets in a qualifying trust fund as of September 30, 2013, and is currently financing the OPEB Plan on a pay-as-you-go basis. Retirees and employees are not required to contribute to the OPEB Plan.

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

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

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

(In Thousands)

| Actuarial Valuation Date | Fiscal Year End | Annual Required Contribution (a) | Interest on Existing NOO (b) | Adjustment to ARC (c) | Annual OPEB Cost (a+b+c = d) | Annual Contribution Amount (e) | Percentage of OPEB Cost Contributed (e/d) | Net Increase (Decrease) in NOO (d-e = f) | NOO at Beginning of Year (g) | NOO at End of Year (f+g) |
|---|---|---|---|---|---|---|---|---|---|---|
| 09/30/11 | 09/30/13 | $ 6,418 | $ 333 | $ (309) | $ 6,442 | $ 3,612 | 56.1% | $ 2,830 | $ 8,363 | $ 11,193 |
| 09/30/11 | 09/30/12 | 6,419 | 214 | (198) | 6,435 | 3,430 | 53.3% | 3,005 | 5,358 | 8,363 |
| 09/30/10 | 09/30/11 | 7,436 | 102 | (94) | 7,444 | 4,640 | 62.3% | 2,804 | 2,554 | 5,358 |
| 09/30/09 | 09/30/10 | 7,436 | 26 | (24) | 7,438 | 5,523 | 74.3% | 1,915 | 639 | 2,554 |
| 09/30/08 | 09/30/09 | 5,038 | (1) | 1 | 5,038 | 4,371 | 86.8% | 667 | (28) | 639 |

### Funding Status and Funding Progress

As of September 30, 2013, the most recent actuarial valuation date, the OPEB was zero percent funded. The actuarial accrued liability was $64,638,000, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $64,638,000. Covered payroll was approximately $107,002,000, resulting in unfunded actuarial liability as a percentage of payroll of 61 percent.

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

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

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

### Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

| | |
|---|---|
| Valuation Date | September 30, 2012 |
| Actuarial Cost Method | Projected Unit Credit Method |
| Amortization Method | Level Percent of Pay, Open |
| Remaining Amortization Period | 30 years |
| Asset Valuation Method | Market Value of Assets |
| Mortality | RP-2000 Employee Mortality Table |
| Discount Rate | 4% |
| Projected Payroll Increases | 3.25% |
| Inflation Rate | 3.25% |
| Health Care Costs Rates | Pre-Medicare Medical Trend 10.5% graded to 5% over 7 years |

## NOTE O - RISK MANAGEMENT

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

- *General and Auto Liability* - Self-insured with an established department to finance losses.

- *Workers' Compensation* - Self-insured with a retention of $550,000, with excess coverage for statutory amounts above the retention covered by commercial insurance.

- *Property Insurance* - Commercial insurance coverage purchased in the maximum amount of $1 billion per occurrence, except a separate annual aggregate of $50 million flood and earthquake, to include the following sublimits: (a) the Commission participates in an Owner Controlled Insurance Program with respect to property in the course of construction, builder's risks and installation or erection; (b) $50 million per occurrence as included in the $500 million loss limit subject to the policy terms and conditions; (c) $5 million with respect to extra expense and (d) $1 million with respect to transit.

## NOTE O - RISK MANAGEMENT - Continued

- *Health System and Nursing Home Medical Malpractice and General Liability* - Certain medical professional employees purchase individual insurance protection that is applicable to their Commission employment. The Commission reimburses premiums for medical malpractice - professional liability insurance coverage for those Commission medical professional employees in amounts up to a stated amount per year. The Commission has also purchased professional and general liability insurance with coverage consisting of $1 million per occurrence and $3 million aggregate.

- *Health Insurance* - Self-insured with excess coverage through a commercial insurance provider. The Commission purchases specific reinsurance coverage with an unlimited benefit for each covered person, subject to a $250,000 deductible per covered person. Employees may obtain health care services through participation in the Commission's group health insurance plan. Risk management administers health insurance and negotiates with private providers to provide health, life, accidental death and dismemberment, vision and dental insurances for its employees and dependents. The Commission pays approximately 75 percent of health and 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, 2013, 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 | |
|---|---|---|---|---|---|---|---|---|
| | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 | 2013 | 2012 |
| Unpaid claims and claim adjustment expenses: | | | | | | | | |
| Accrual at beginning of fiscal year | $ 2,120 | $ 1,929 | $ 332 | $ 300 | $ 4,175 | $ 4,040 | $ 6,627 | $ 6,269 |
| Incurred claims and claim adjustment expenses: | | | | | | | | |
| Provision for insured events of current fiscal year | 1,128 | 519 | 89 | 45 | (4) | 1,197 | 1,213 | 1,761 |
| Increases/decreases in provision for insured events of prior fiscal years | (42) | (251) | 196 | 21 | 685 | 330 | 839 | 100 |
| Total incurred claims and claim adjustment expenses | 1,086 | 268 | 285 | 66 | 681 | 1,527 | 2,052 | 1,861 |
| Payments: | | | | | | | | |
| Claims and claim adjustment expenses attributable to insured events of current fiscal year | (1,653) | (77) | (128) | (34) | (1,418) | (217) | (3,199) | (328) |
| Claims and claim adjustment expenses attributable to insured events of prior fiscal years | - | - | - | - | - | (1,175) | - | (1,175) |
| Total payments | (1,653) | (77) | (128) | (34) | (1,418) | (1,392) | (3,199) | (1,503) |
| Accrual at end of fiscal year | $ 1,553 | $ 2,120 | $ 489 | $ 332 | $ 3,438 | $ 4,175 | $ 5,480 | $ 6,627 |

**NOTE O - RISK MANAGEMENT - Continued**

For the year ended September 30, 2013, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

| Balance October 1, 2012 | Claims Incurred | Claims Paid | Increase/ Decrease in Provision | Balance September 30, 2013 |
|---|---|---|---|---|
| $ 1,198,000 | $ 18,106,692 | $ (20,460,458) | $ 2,228,766 | $ 1,073,000 |

**NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY (amounts in thousands)**

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, 2013, the Development Authority was indebted to the Commission in the amount of $15,472, which is presented as advances due to/from other funds in the accompanying statement of net position. This amount is eliminated in the government-wide statement of net position.

**Warrants Payable**

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2013:

| | Beginning Balance | Additions | Reductions | Ending Balance |
|---|---|---|---|---|
| Warrant issue - 2004 series | $ 415 | $ - | $ 415 | $ - |

**Defeased Debt**

On February 2, 2004, the Development Authority issued $10,650 of Industrial Park Revenue Bonds of which $10,650 was placed in an irrevocable trust for the purpose of generating resources for all future debt service payments through 2013 ($11,465 principal) of the 1998 bonds. As a result, the refunded bonds were considered to be defeased, and the liability was removed.

On March 1, 2013 the 2004 bonds were paid off. There are no defeased bond balances as of September 30, 2013.

## NOTE Q - TRANSACTIONS WITH OTHER FUNDS

### Advances to/from Other Funds

The amounts of advances to/from other funds at September 30, 2013, were as follows:

| | Advances from Other Funds (in Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | Limited Obligation School Fund | Cooper Green Hospital Fund | Sanitary Operations Fund | Nonmajor Governmental Funds | Nonmajor Enterprise Funds | Totals |
| Advances to other funds: | | | | | | |
| General Fund | $ - | $ 7,466 | $ - | $ 1,078 | $ 15,472 | $ 24,016 |
| Nonmajor Governmental Funds | - | - | - | - | 17,626 | 17,626 |
| | $ - | $ 7,466 | $ - | $ 1,078 | $ 33,098 | $ 41,642 |

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

### Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2013, were as follows:

| | Transfers in (in Thousands) | | | | | |
|---|---|---|---|---|---|---|
| | General Fund | Indigent Care Fund | Cooper Green Hospital Fund | Nonmajor Govern-mental Funds | Nonmajor Enterprise Funds | Totals |
| Transfers out: | | | | | | |
| General Fund | $ - | $ - | $ - | $ 1,025 | $ - | $ 1,025 |
| Indigent Care Fund | 900 | - | 46,179 | - | - | 47,079 |
| Cooper Green Hospital Fund | - | 900 | - | - | - | 900 |
| Jefferson Rehabilitation and Health Center Fund | - | - | - | 5,403 | - | 5,403 |
| Bridge and Public Building Fund | 37,362 | - | - | 3,944 | - | 41,306 |
| Landfill Fund | - | - | - | 826 | - | 826 |
| | $ 38,262 | $ 900 | $ 46,179 | $ 11,198 | $ - | $ 96,539 |

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

## NOTE R - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At September 30, 2013, the Commission has commitments of the following:

| Name of Commitment | (in Thousands) Amount |
|---|---|
| Sewer repairs and maintenance | $ 3,402 |
| Sewer collection system asset management program | 1,279 |
| Tornado-related emergency assistance | 8,170 |
| Birmingham water and sewer services | 656 |
| Bridge inspection equipment | 606 |
| Village Creek wastewater treatment plant | 4,048 |
| Debt refinancing fees | 654 |
| Healthcare services for hospital claims | 1,459 |
| Widening of Grants Mill Road | 1,000 |
| Rental Housing for Elderly Grant | 556 |
| Cooper Green Hospital physician staffing | 838 |
| | $ 22,668 |

From time to time, the Commission enters into agreements with developers and vendors to promote economic development within Jefferson County. As of September 30, 2013, the Commission accrued expenses related to these agreements of approximately $4,810,000. These amounts will be treated as General Unsecured Claims under the Commission's confirmed Plan of Adjustment. Under the Plan of Adjustment, creditors holding Allowed General Unsecured Claims shall receive only their pro rata share of a $5,000,000 General Unsecured Claims Pool that the Commission funded in full on the December 3, 2013 Effective Date.

## NOTE S - CONTINGENT LIABILITIES AND LITIGATION

As described in Note W - Bankruptcy and Restructuring, the County's *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated November 6, 2013)* (the Plan of Adjustment) was confirmed by order of the U.S. Bankruptcy Court for the Northern District of Alabama on November 22, 2013. On December 3, 2013 (the Effective Date), the Commission proceeded with consummation of substantially all the transactions contemplated by the Plan of Adjustment, and all other conditions to the effectiveness of the Plan of Adjustment were either satisfied or waived. As more particularly described below, pursuant to the County's Plan of Adjustment, many litigation matters to which the County had been a party were compromised and dismissed with prejudice, and the underlying claims against the County were discharged. A copy of the Plan of Adjustment may be obtained from the Commission's website.

As also described more particularly in Note W - Bankruptcy and Restructuring, an appeal of the order confirming the Plan of Adjustment has been filed with the U.S. District Court for the Northern District of Alabama. The Commission has moved to dismiss that appeal on the grounds that, among other things, the appeal is moot. The U.S. District Court has not yet ruled on the Commission's motion to dismiss this appeal. If the confirmation of the Plan of Adjustment were to be overturned on appeal, the Commission does not know the effect such a ruling would have on the litigation that has been dismissed in reliance upon the confirmation of the Plan of Adjustment.

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

*Edwards v. Jefferson County*, Case number CV-07-900873, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, on May 11, 2007. Plaintiffs in this action successfully obtained, on behalf of a class, a declaration that the Commission's occupational, license and privilege taxes were invalid and an injunction against the further collection of those taxes. The Alabama Supreme Court affirmed this ruling.

As a result, the Commission was ordered to refund those taxes in the amount of approximately $37,800,000. To that end, the Commission escrowed occupational tax collections from January 12, 2009 to August 13, 2009. While the case was on its first appeal, the Alabama Legislature reauthorized the Commission to collect occupational, license and privilege taxes. In a subsequent appeal, the Alabama Supreme Court recognized that, under the new legislation, the Commission could levy and collect the new tax for the period covered by the escrow, but the Commission could not simply transfer to itself the amounts that had been escrowed. After this second appeal, the Commission mediated with plaintiffs' counsel and reached a settlement framework applicable to approximately $6,500,000 of the escrowed taxes (the Edwards Preliminary Settlement Amount). On May 19, 2011, the trial court ordered that $31,416,169 be refunded to taxpayers, less any attorneys' fees that may be awarded by the Court.

By order dated August 9, 2011, the trial court gave final approval to the settlement that had been reached between the named class representatives and the Commission. Based on the final settlement, some 900 taxpayers who opted out of the class received their pro rata share of approximately $30,000, which was deducted from the Edwards Preliminary Settlement Amount, and received a release from potential retroactive taxation. All other taxpayers who did not elect to opt out of the class received a release from the Commission for any potential re-collection of occupational, license or privilege taxes for the escrow period, and the taxpayers, in turn, forego the right to receive their pro rata share of the Edwards Preliminary Settlement Amount. Taxpayers who did opt out of the class received their pro rata share of the settlement fund, but the Commission had already paid $1,100,000 to cover the administrative costs of refund administration pursuant to the trial court's order. The final settlement provided an additional $70,000 paid from the Edwards Preliminary Settlement Amount to cover expenses. Based on the final approval, approximately $6,400,000 was returned to the Commission.

Two members of the settlement subclass filed an appeal of the trial court's final approval of the settlement. After the County filed its chapter 9 Bankruptcy Case (see Note W below for a discussion of the Bankruptcy Case), the Bankruptcy Court granted the County's motion to lift the automatic stays to allow such appeal to proceed. On November 16, 2012, the Alabama Supreme Court affirmed the trial court's order approving the final settlement. This matter is concluded.

*Weissman v. Jefferson County*, Case number CV-09-904022, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, in December 2009. This case was a certified class action on behalf of occupational, license and privilege taxpayers who paid such taxes pursuant to Alabama Act 2009-811. The taxes levied between August 1 and December 31, 2009, amounted to approximately $31 million.

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

On December 1, 2010, the trial court granted summary judgment for the plaintiffs and enjoined the Commission from collecting any tax under authority of this act but did not order the Commission to refund amounts already collected. On March 16, 2011, the Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional but did not decide the question whether the Commission must refund the taxes collected prior to December 1, 2010. On August 8, 2012, after the County had filed for bankruptcy, the Bankruptcy Court granted the County's request that the appeal be allowed to proceed. On November 16, 2012, the Supreme Court of Alabama ruled that the County was not required to refund the taxes collected prior to December 1, 2010.

The Bankruptcy Court thereafter modified the automatic stays to allow the plaintiffs to file a petition for writ of certiorari to the Supreme Court of the United States of America. No petition for writ of certiorari was filed.

Prior to the Alabama Supreme Court's ruling, the Weissman plaintiffs filed a proof of claim in the Bankruptcy Case asserting a claim for the refund of the taxes at issue in the Supreme Court's decision. Subsequent to the Alabama Supreme Court's opinion, the Weissman plaintiffs withdrew their proof of claim. This matter is concluded.

*Wilson v. Bank of America, et al,* Case number CV-2008-901907.00, was filed on June 16, 2008, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. Plaintiffs, representatives of a putative class, alleged that Jefferson County's sewer rates were unconstitutionally high, that the Indenture pursuant to which the Commission issued sewer warrants was invalid and that the chapter of the Alabama Code that authorized the issuance of the Commission's sewer warrants was invalid. Plaintiffs sued several banks and individuals in addition to the Commission. In December 2011, one of the counts in the state court lawsuit was removed to the United States District Court for the Northern District of Alabama, which referred that count to the Bankruptcy Court, where the removed count was assigned Adversary Proceeding Number 11-00433-TBB.

The Commission consistently asserted that the claims asserted by the *Wilson* plaintiffs belonged to the Commission and that the Commission could compromise and resolve pursuant to its debt restructuring efforts. Accordingly, the County's Plan of Adjustment filed in its Chapter 9 bankruptcy case proposed, as part of its comprehensive compromise and settlement of the County's debt obligations with respect to the sewer system, to enjoin the further prosecution by any person of the claims and causes of action asserted in the *Wilson* litigation. In the order confirming the County's Plan of Adjustment (the Confirmation Order), the Bankruptcy Court ruled that the claims asserted by the *Wilson* plaintiffs did belong to the County and that the Commission could, through the Plan of Adjustment, propose a binding settlement and release of such claims. On December 3, 2013, the confirmed Plan of Adjustment became effective, at which time the Plan of Adjustment's injunction against the continued prosecution of the *Wilson* litigation also became effective.

The Confirmation Order also dismissed the Adversary Proceeding pending before the Bankruptcy Court. Moreover, the *Wilson* plaintiffs stipulated to the dismissal of the state court action. On January 13, 2014, the Circuit Court of Jefferson County entered an order dismissing with prejudice the claims asserted by the Plaintiffs in the state court lawsuit. This matter is concluded subsequent to September 30, 2013.

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

*Bank of New York Mellon as Trustee v. Jefferson County, et al,* Case number 2:08-CV-1703-RDP, was filed on September 16, 2008, in the United States District Court for the Northern District of Alabama, Southern Division. This case was stayed prior to the commencement of the Bankruptcy Case and has been administratively closed. The plaintiffs in this action had sought the appointment of a receiver over the Commission's sanitary sewer system, but the federal district court abstained from exercising jurisdiction over the case.

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, this litigation was compromised as of the Effective Date, with the Plan of Adjustment and the Confirmation Order providing for the dismissal with prejudice of this lawsuit.

On December 3, 2013, the parties to this lawsuit filed a joint stipulation of dismissal with the District Court, which entered an order dismissing the case with prejudice on December 4, 2013. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Bank of New York Mellon as Trustee v. Jefferson County, et al,* Case number CV-09-2318, was filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division, on August 3, 2009. On September 22, 2010, the Plaintiff obtained the appointment of John S. Young, Jr., LLC as Receiver over the Commission's sewer system. A money judgment was also entered against the Commission in the amount of $515,942,500, but the recourse for that money judgment was limited to the net revenues of the sewer system. Notwithstanding the nonrecourse nature of the sewer warrants and of the money judgment referenced above, the plaintiff, as well as several sewer warrant holders and sewer warrant insurers, filed proofs of claim in the Bankruptcy Case that asserted or appeared to assert recourse claims against the Commission's general fund including, without limitation, proofs of claim in unliquidated amounts filed by The Bank of New York Mellon as indenture trustee, FGIC, Syncora and AGM. The remaining claims in this lawsuit were for mandamus to the Commission and for an accounting of the sewer system revenues. Other than litigation pertaining to the Receiver's powers, there was no active litigation on the claims in this case as of the Petition Date.

Several additional parties sought to intervene in this matter after the order appointing the Receiver was entered. The potential intervening parties included the Attorney General of the State of Alabama, the plaintiffs from the *Wilson* action (discussed above), a group of Alabama state legislators and another group that includes legislators, Birmingham city officials and citizens. The trial court granted the Attorney General's motion to intervene but denied the motions of the other potential interveners on July 25, 2011. Among the intervention requests that were denied was the request of the *Wilson* plaintiffs, who subsequently appealed the order denying their motion. That appeal was stayed by the commencement of the Bankruptcy Case.

After the commencement of the Bankruptcy Case, the plaintiff in the receivership action described herein, along with other parties, filed motions requesting that the Bankruptcy Court find that the automatic stays did not apply to this state court action or that the automatic stays should be modified to allow the litigation to proceed in state court. The Commission opposed such motions.

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

On November 21-22, 2011, the Bankruptcy Court held evidentiary hearings regarding these motions. On January 6, 2012, the Bankruptcy Court issued its opinion, holding that with one exception, the automatic stays in the Bankruptcy Case did prevent the state court litigation from proceeding and finding that cause did not exist for granting relief from such automatic stays to allow such state court litigation to continue. The one exception noted in the Bankruptcy Court's opinion related to postpetition net system revenues derived from the Commission's sanitary sewer system and the claims of the Commission's sewer warrant holders to such funds. The plaintiff and several other parties to this action appealed the Bankruptcy Court's decision, and the Commission, in turn, filed a cross-appeal. The United States Court of Appeals for the Eleventh Circuit granted the parties' petitions for permission to take direct appeals, and all such appeals and cross-appeals have been consolidated under the Court of Appeals' Case Number 12-13654. The parties completed their briefing before the Eleventh Circuit on all appeals and cross-appeals. In 2013, the Commission and other parties to these appeals and cross-appeals requested that the Court of Appeals postpone oral arguments and hold the appeals and cross-appeals in abeyance. The Court of Appeals granted such request and agreed to hold the appeals and cross-appeals in abeyance until January 15, 2014.

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, this litigation was compromised as of the Effective Date, with the Plan of Adjustment and the Confirmation Order providing for the dismissal with prejudice of the litigation. On December 3, 2013, the Effective Date of the Plan of Adjustment, The Bank of New York Mellon, the County and the Attorney General of the State of Alabama filed with the state court a joint motion to dismiss the receivership lawsuit with prejudice, and the state court entered an order dismissing the case with prejudice on December 4, 2013. In addition, the appeals and cross-appeals to the Eleventh Circuit with respect to the Bankruptcy Court's rulings regarding the automatic stays were also dismissed with prejudice by the parties in accordance with the terms of the Plan of Adjustment and Confirmation Order. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Jefferson County, Alabama v. JPMorgan, et al*, Case number CV-2009-903641.00, was filed on November 13, 2009, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. The Commission brought suit against J.P. Morgan Securities, Inc.; JPMorgan Chase Bank National Association; Blount Parrish & Company; Charles LeCroy; Douglas MacFaddin; Larry Langford; William Blount; and Albert LaPierre asserting fraud, unjust enrichment and conspiracy claims. The Commission requested damages in excess of a billion dollars, and the JPMorgan defendants counterclaimed for indemnification. The lawsuit was stayed during the Bankruptcy Case pending the Commission's efforts to confirm the Plan of Adjustment and to cause such Plan of Adjustment to become effective.

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, this litigation was compromised as of the Effective Date, with the Plan of Adjustment and the Confirmation Order providing for the dismissal with prejudice of this lawsuit. On December 3, 2013, the parties to this lawsuit filed a joint stipulation of dismissal with the state court, which entered an order dismissing the case with prejudice on December 3, 2013. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

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

*Syncora Guaranty v. Jefferson County, Alabama, et al*, Case number 601100/10, was filed on April 29, 2010, in the Supreme Court of New York, County of New York. This litigation was brought by Syncora, one of the insurers of Jefferson County's sewer warrants, against the Commission, JPMorgan Chase Bank, N.A. and J.P. Morgan Securities, Inc. (the two non-Commission defendants, collectively, JPMorgan). Syncora alleged that the Commission committed fraud in two ways. First, it alleges that the Commission suppressed the existence of analyses of the Commission's sewer operations that would have shown Syncora that the system's expected revenues were insufficient to meet its debt service obligations. Second, Syncora alleged that the Commission and JPMorgan concealed the bribery scheme that existed between certain former Commissioners and JPMorgan.

Syncora claimed damages in excess of $400,000,000, and the Commission disputed such claims. Unlike the *Bank of New York Mellon* litigation where the plaintiff's potential recovery was limited to the net revenues of the sewer system, it was possible that Syncora could seek to collect any damages it is awarded from the Commission's General Fund. The Commission counterclaimed against Syncora, claiming that Syncora defrauded the Commission by concealing the weakness of Syncora's investment portfolio. Syncora moved to dismiss the Commission's counterclaims, and the Court granted that motion. Moreover, JPMorgan cross-claimed against the Commission for indemnification, alleging that certain documents executed in connection with the Commission's sewer financing required the Commission to reimburse any of JPMorgan's liability to Syncora. The Commission moved to dismiss JPMorgan's cross-claim, but that motion was denied at a hearing on August 16, 2011. The case was stayed as a result of the Commission's commencement of its Chapter 9 Bankruptcy Case.

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, this litigation was compromised and the underlying claims against the County discharged as of the Effective Date, with the Plan of Adjustment and the Confirmation Order providing for the dismissal with prejudice of this lawsuit. On December 3, 2013, the parties to this lawsuit filed a joint stipulation of discontinuance with the state court. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Assured Guaranty Municipal (AGM) Corp v. JPMorgan*, Supreme Court of the State of New York, County of New York, Case number 650642/10, was filed June 16, 2010. AGM brought claims against J.P. Morgan Securities, Inc. and JPMorgan Chase Bank, N.A. (collectively, JPMorgan) for fraud arising out of JPMorgan's involvement in the financing of improvements to the Commission's sewer system. On February 10, 2011, JPMorgan filed a third-party complaint against the Commission, alleging that certain documents executed in connection with the Commission's sewer financing require the Commission to reimburse any of JPMorgan's liability to AGM arising out of this suit.

The Commission moved to dismiss JPMorgan's third-party complaint, but that motion was denied at a hearing on August 16, 2011. The third-party complaint asserted by JPMorgan against the Commission was stayed as a result of the Commission's commencement of the Bankruptcy Case. AGM filed a motion for relief from the automatic stays in the Bankruptcy Case seeking permission to proceed with its claims against JPMorgan, but the Bankruptcy Court denied the motion.

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

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, this litigation was compromised and the underlying claims against the County discharged as of the Effective Date, with the Plan of Adjustment and the Confirmation Order providing for the dismissal with prejudice of this lawsuit. On December 3, 2013, the parties to this lawsuit filed a joint stipulation of discontinuance with the state court. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*CSX Transportation v. Jefferson County*, Case number CV-10-1490, and *BNSF v. Jefferson County*, Case number 10-903065, were filed in the Circuit Court of Jefferson County, Alabama, Birmingham Division. These cases seek a refund of Commission sales taxes that were paid on the retail sale of diesel fuel. These cases were stayed by commencement of the Bankruptcy Case and by the trial court pending the outcome of a similar case filed against the State of Alabama. The plaintiffs in these cases filed proofs of claims in the County's Bankruptcy Case asserting the same claims asserted against the Commission in their lawsuits.

The lawsuits were stayed by the trial court pending the outcome of a similar case filed by taxpayers against the State of Alabama. In the State of Alabama's case, the Eleventh Circuit Court of Appeals ruled against the State. The State filed a petition for writ of certiorari with the U.S. Supreme Court asking it to review the matter. The Supreme Court granted the State's petition for writ of certiorari on July 1, 2014. There is, thus, a potential for an adverse outcome to the Commission with respect to CSX's and BNSF's claims.

Pursuant to court orders entered in the lawsuits prior to the commencement of the Bankruptcy Case, CSX and BNSF had been paying their respective disputed tax obligations into escrow for a period of time. If CSX and BNSF prevail with their respective claims, the escrowed funds would be released back to them, but they would still have claims against the County for the refund of the amount of their disputed taxes paid prior to the establishment of the escrow. Any claims that CSX and BNSF might have that are not covered by the escrowed funds would be treated as General Unsecured Claims under the Commission's confirmed Plan of Adjustment. Under the Plan of Adjustment, creditors holding Allowed General Unsecured Claims shall receive only their pro rata share of a $5,000,000 General Unsecured Claims Pool that the Commission funded in full on the December 3, 2013 Effective Date. The conclusion of this matter is uncertain. The Commission has accrued an estimated loss related to these cases as of September 30, 2013.

*In the Matter of J.P. Morgan Securities, Inc., Respondent;* Securities and Exchange Commission, Administrative Proceeding, File No. 3-13673: The Commission has received $75,033,692 as the result of a settlement between J.P. Morgan Securities, Inc. (JPMSI) and the SEC that resolved cease and desist proceedings brought by the SEC against JPMSI under Section 8A of the Securities Act of 1933 and Sections 15(b) and 21C of the Securities Exchange Act of 1934.

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

Pursuant to an order dated November 4, 2009, JPMSI wired $50,000,000 to the Commission. The Commission received such funds on November 10, 2009. As set forth in the order, this payment was "to and for the benefit of Jefferson County, Alabama." Its purpose was to assist displaced Commission employees, residents and sewer ratepayers. Further pursuant to the November 4, 2009, order, JPMSI paid a disgorgement of $1.00 and a civil money penalty in the amount of $25,000,000 to the SEC, which created a "Fair Fund" pursuant to Section 308(a) of the Sarbanes-Oxley Act of 2002. The civil money penalty was "treated as penalties paid to the government for all purposes, including tax purposes."

On August 18, 2010, the SEC issued a Notice of Proposed Plan of Distribution and Opportunity for Comment pursuant to Rule 1103 of the SEC's Rules on Fair Funds and Disgorgement, 17 C.F.R. Section 201.110. The Notice provided that the pool of potential recipients of the Fair Fund included the Commission and the individuals and entities that purchased securities in the bond offerings underwritten by JPMSI. The SEC determined that the Commission "suffered direct economic harm" as a result of JPMSI's actions, including the cost of improper payments, inflated swap payments and inflated interest rates.

In addition, the SEC found that the Commission "suffered additional harm to its reputation, credit rating and ability to refinance." The SEC further concluded that the purchasers of securities suffered no harm from JPMSI's activities. Accordingly, the SEC concluded the Commission was the eligible recipient of the Fair Fund.

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

Both The Bank of New York Mellon as Trustee for the Commission's sewer warrants and the Receiver appointed by the Jefferson County Circuit Court for the Commission's sewer system gave notice to the Commission of a claim to the proceeds of the $50,000,000 payment to the Commission by JPMSI under Alabama Code § 6-5-20. The earlier of these presentments was made on November 4, 2010. The claims are alleged to be based, at least in part, on events that took place before September 30, 2012.

By letter dated June 20, 2011, the Receiver demanded $50,000,000 of the funds received by the Commission from JPMSI. The Receiver noted that the purpose of the payment was to assist displaced Commission employees, residents and sewer ratepayers.

The Receiver claimed responsibility for protecting sewer system ratepayers and demanded the $50,000,000 for the purpose of "using it to fund the Receiver's low-income assistance program for multiple years" and expressed a willingness "to discuss the possibility of a payment plan that fully funds the low-income assistance program." Also on June 20, 2011, the Receiver presented a claim for the Fair Fund proceeds in the amount of $25,033,692.

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

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

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, all claims by The Bank of New York Mellon as Trustee and by the Receiver were compromised, settled and discharged as of the Effective Date. Thus, this matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Claim under Financial Guaranty Agreement with Syncora.* Prior to the Commission's filing for Chapter 9 bankruptcy, Syncora gave notice of claim to the Commission under Alabama Code § 6-5-20 that it may seek reimbursement of $32,722,119 paid by Syncora on the Commission's behalf under a debt service reserve fund policy from September 2008 to December 2008. The notice of claim was filed on September 10, 2010. The claim is based, at least in part, on events that allegedly took place before September 30, 2012. This claim arises under a financial guaranty agreement between the Commission and Syncora. The amount of the claim may change with time because Syncora claims that it is entitled to receive from the Commission the costs it incurs in attempting to collect any amount owed under the financial guaranty agreement.

After the commencement of the Bankruptcy Case, Syncora filed proofs of claim in the Bankruptcy Case in which it asserted, among other claims, the reimbursement claim made in its September 10, 2010 notice of claim. Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, the claims by Syncora were compromised, settled and discharged as of the Effective Date, in consideration for the distributions and other consideration received by Syncora on the Effective Date under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Claim of Assured Guaranty Municipal Corp.* On December 10, 2010, AGM made demand for reimbursement in the amount of $4,390,146 for draws made on insurance policies relating to the Commission's sewer warrants. The total amount of the claim as of December 10, 2010, was $5,032,109. After the commencement of the Bankruptcy Case, AGM filed a proof of claim in which it asserted, among other claims, its claim for reimbursements with respect to such debt service reserve insurance policy in the amount of $4,390,337, plus accrued interest thereon in the additional amount of $1,010,150.

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

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, the claims by Assured were compromised, settled and discharged as of the Effective Date, in consideration for the distributions and other consideration received by Assured on the Effective Date under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*US Bank Notice of Default Regarding School Warrants.* Prior to the commencement of the County's Bankruptcy Case, the Commission was unable to replenish the reserve fund for the LO Series 2004-A, 2005-A and 2005-B Warrants as quickly as required by the Trust Indenture as a result of the credit rating downgrade of the issuer of the surety bond (Ambac) held as a part of the reserve fund. On September 24, 2012, after the commencement of the Bankruptcy Case, the Commission fully replenished such reserve fund. After the commencement of the Bankruptcy Case, U.S. Bank as Trustee under the Trust Indenture filed one or more proofs of claim in the Bankruptcy Case in which it claimed, among other things, \$819,650,000 in outstanding principal owing upon such LO Series Warrants, \$10,203,964 in accrued and unpaid interest owing thereon and premium to the extent owing under the pertinent indenture.

Pursuant to the County's Plan of Adjustment, the claims relating to the School Warrants (including without limitation the claims filed by U.S. Bank as Trustee) were compromised, settled and discharged as of the Effective Date, in consideration of the treatment of the School Warrant-related claims under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Notice by Bayerische Landesbank and JPMorgan under Standby Warrant Purchase Agreements.* The Commission received notice from Bayerische Landesbank on August 10, 2010, and JPMorgan Chase Bank, N.A. on October 25, 2010, that these entities were invoking their rights under their standby warrant purchase agreements relating to certain of the Commission's General Obligation Warrants. These agreements did not change the principal amount of the pertinent general obligation warrants but did provide for acceleration of principal payments and for interest to accrue at higher rates to holders of warrants purchased pursuant to those standby agreements. Wells Fargo Bank, the successor indenture trustee with respect to the GO Warrants in question, filed a proof of claim in the Bankruptcy Case with respect to such warrants in the amount of \$105,138,677. Both Bayerische Landesbank and JPMorgan Chase Bank, N.A. also filed proofs of claims asserting claims with respect to the respective standby warrant purchase agreements.

Pursuant to the County's Plan of Adjustment, the claims relating to the GO Warrants (including without limitation the claims filed by Bayerische Landesbank, JPMorgan Chase Bank, N.A. and Wells Fargo Bank as Trustee) were compromised, settled and discharged as of the Effective Date, in consideration of the treatment of claims related to such GO Warrants under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

## NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

*Potential Obligations under Standby Warrant Purchase Agreements Relating to Sewer Warrants (also discussed in Note J).* Sewer warrants were purchased by financial institutions under various standby warrant purchase agreements. The total principal amount of sewer warrants purchased under these standby warrant purchase agreements is approximately $850,000,000. These agreements do not change the principal amount of the Commission's sewer warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of warrants purchased pursuant to those agreements. The indenture trustee with respect to the sewer warrants has filed a proof of claim in the Bankruptcy Case in which it asserts a claim for all amounts due on account of the Commission's outstanding sewer warrants, which claim encompasses those sewer warrants purchased under such standby warrant purchase agreements. In addition, some, if not all, of the parties that purchased sewer warrants pursuant to such standby warrant purchase agreements (or their assignees) have filed their own proofs of claim in the Bankruptcy Case with respect to the sewer warrants they hold.

Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, claims filed in the Bankruptcy Case on account of the sewer warrants were compromised, settled and discharged as of the Effective Date, in consideration for the distributions made and other consideration provided on account of sewer warrant claims under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Claim Against County Regarding Validity of Sewer Warrants.* On June 1, 2011, James Hilgers sent a notice of claim to the Commission President that takes the position that the Commission's sewer debt is void and unenforceable because it does not comply with the requirements of Amendment 73 of the Constitution of Alabama. Mr. Hilgers never initiated any litigation with respect to his notice of claim nor asserted his position in the Bankruptcy Case. Pursuant to the County's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the County's debt obligations with respect to the sewer system, any disputes regarding the validity of the sewer warrants were compromised, settled and discharged as of the Effective Date. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Bank of New York Mellon v. Jefferson County, Alabama.* United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00067-TBB (the "Severed Sewer Adversary Proceeding"): As referenced above, on April 25, 2012, the Bankruptcy Court entered an order severing three of the plaintiffs' counts, as well as certain counterclaims filed by the Commission, from adversary proceeding number 12-00016 and into a separate adversary proceeding. The severed claims and the Commission's counterclaims sought a determination about the parties' respective rights, title and interest in three funds commonly referred to as the Released Escrow Funds, the 2005 Construction Fund and the Supplemental Transactions Fund. In its counterclaims, the Commission asserted that it owned each of these three funds free and clear of any lien, pledge or other property interest. The plaintiffs and the Commission filed respective motions for summary judgment and accompanying briefs. The Bankruptcy Court held a hearing on the summary judgment motions but did not rule on them. At the Commission's request, the Bankruptcy Court stayed the Severed Sewer Adversary Proceeding pending the Commission's efforts to confirm the Plan of Adjustment and to cause such Plan of Adjustment to become effective.

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

Pursuant to the Commission's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the Commission's debt obligations with respect to the sewer system, all disputes relating to the sewer warrants and related obligations were compromised, settled and discharged as of the Effective Date, in consideration for the distributions made and other consideration provided on the Effective Date under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*The Bank of New York Mellon, as Indenture Trustee, v. Jefferson County, Alabama*. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00016: The indenture trustee for the Commission's sewer warrants commenced this action against the Commission in February 2012 in the Bankruptcy Court.

The complaint sought a declaratory judgment, among other things, that the Trustee was entitled to receive all "System Revenues" from the Commission's sanitary sewer system net only of those items defined as "Operating Expenses" in the pertinent trust indenture and that the Commission was barred from using such "System Revenues" for capital expenditures, payment of professional fees and expenses unrelated to the actual operation and administration of the sewer system, and depreciation and amortization. The Trustee's complaint was subsequently amended to add certain of the warrant holders and warrant insurers as plaintiffs. In addition, one of the warrant insurers, FGIC, filed a complaint in intervention against the Commission. The Bankruptcy Court severed three counts of the plaintiffs' complaint and the Commission's counterclaims into a separate adversary proceeding (see discussion below). The Bankruptcy Court then proceeded to consider the remaining counts of the plaintiffs' complaint based upon the parties' respective trial briefs, evidence and argument presented on April 11-12, 2012, and certain subsequent submissions.

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

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

One issue not addressed by the Bankruptcy Court's memorandum opinion (the Net Revenues Opinion) was the Commission's ability to recover actually incurred sewer-related professional fees and expenses from sewer system revenues as "Operating Expenses" under the sewer warrant indenture.

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

The Bankruptcy Court subsequently entered an order (1) determining to decide by separate order the issue of actually-incurred professional fees and expenses based on the testimony from the evidentiary hearing and the post-hearing briefs submitted by the parties; (2) finding that there was "no just reason for delay … in the entry of a final appealable judgment" in the adversary proceeding; and (3) entering partial final judgment in favor of the plaintiffs in the adversary proceeding.

The Commission appealed the Net Revenues Opinion, and the matter was certified to and accepted by the Eleventh Circuit as a direct appeal, pending as docket No. 13-10348-BB. On June 20, 2013, the Commission, FGIC, JPMorgan Chase Bank, N.A., Syncora, AGM, The Bank of New York Mellon, as liquidity bank, and State Street Bank and Trust Company moved to stay the appeal. On June 21, 2013, the Eleventh Circuit granted the parties' motion and stayed further proceedings (including the filing of the Commission's appellate reply brief) until January 15, 2014.

On June 12, 2013, the Commission filed a motion to stay all proceedings in the adversary proceeding, with certain limited exceptions concerning the issuance and appeal of the Court's ruling on the attorneys' fee issue. On June 28, 2013, the Bankruptcy Court entered an order granting the Commission's motion.

On June 27, 2013, the Bankruptcy Court issued its opinion on the legal fee issue (the Fee Opinion). In the Fee Opinion, the Bankruptcy Court clarified certain aspects of the Net Revenues Opinion in the process of analyzing the Commission's entitlement to deduct from System revenues sewer-related professional fees and expenses actually incurred in connection with the Bankruptcy Case. The Bankruptcy Court ultimately concluded "that for the Joint Submission categories [of professional fees] as either Operating Expenses under the Indenture or as 'necessary operating expenses' for § 928(b) subordination purposes, all of the Joint Submission categories of Professional Fees are permitted to be paid ahead of interest and principal to the [holders of the sewer warrants]." The Fee Opinion did not resolve certain objections that had been pursued by the indenture trustee, including that insufficient information had been provided about the amount and nature of the Commission's professional fees to allow for an evaluation of whether such fees were reasonable; instead, the Bankruptcy Court noted that "these contentions by the Trustee are not capable of resolution at this time and as part of this adversary proceeding," and accordingly dismissed such objections without prejudice (in the process observing that they "hopefully, need not be addressed by this Court on another day in another proceeding").

On July 11, 2013, the indenture trustee and other parties in interest filed with the Bankruptcy Court a consolidated notice of appeal of the Fee Opinion. In response, on July 12, 2013, the Clerk of the Bankruptcy Court entered a notice of deficient filing, stating that "[n]o order has been entered and the Notice of Appeal is premature." On that same day, the Clerk of the Bankruptcy Court also made an entry on the docket that stated: "matters docketed in error as no order has been entered and the Notice of Appeal was premature. (RE: related document(s) [198] Service of Notice of Appeal by Court, [199] Notice to Parties Regarding Designations)." The parties agreed not to take any further action on the potential appeal unless: (i) such action was consistent with the terms of the order staying the adversary proceeding and plan support agreements to which the Commission is a party, (ii) the party believed action is necessitated by further action by either the Bankruptcy Court or the district court (including the entry of an order with respect to the Fee Opinion) or (iii) the party believed action was necessary to preserve the appeal.

## NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Bankruptcy Court stayed all proceedings in the Net Revenues Adversary Proceeding, with the aforementioned limited exceptions, until the earlier of (1) the “Effective Date” of the Plan of Adjustment, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the plan support agreements to which the Commission is a party and (2) the date of termination of any such plan support agreement.

Pursuant to the Commission’s Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the Commission’s debt obligations with respect to the sewer system, all disputes relating to the sewer warrants and related obligations were compromised, settled and discharged as of the Effective Date, in consideration for the distributions made and other consideration provided on the Effective Date under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*The Bank of New York Mellon, as Indenture Trustee v. Jefferson County, Alabama, et al*. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding Number 13-00019-TBB (the Declaratory Judgment Action). On February 6, 2013, the indenture trustee for the Commission’s sewer warrants filed a complaint for declaratory relief in the Bankruptcy Court, naming the Commission, Syncora and AGM as defendants. In the complaint, the trustee requested declaratory relief regarding the trustee’s rights and duties under the sewer warrant indenture and statutory and constitutional law. Among other relief, the sewer warrant trustee (1) sought authorization to accelerate, in its discretion, some of the sewer warrants, without accelerating certain sewer warrants insured by AGM and FGIC; (2) requested instructions regarding the application of funds received by the trustee after acceleration of some, but not all, sewer warrants; (3) asked the Bankruptcy Court to consider the manner and order in which the sewer warrant trustee should seek recovery from the various insurance policies issued in connection with the sewer warrants; (4) sought a declaration that reimbursement of amounts paid by the sewer warrant insurers on account of draws on the debt service reserve fund policies issued in connection with the sewer warrants were subordinate to the payment of the sewer warrants; and (5) requested a declaration that obligations to honor draws under the sewer insurance policies continued after all or certain of the sewer warrants had been accelerated. The sewer warrant trustee later dismissed, without prejudice, its claim for declaratory relief with respect to whether reimbursements of amounts paid by sewer warrant insurers on account of draws upon the debt service reserve policies were subordinate to the payment of sewer warrants.

The Commission timely answered the complaint in the Declaratory Judgment Action. In lieu of answering the sewer warrant trustee’s complaint, AGM moved to dismiss the Declaratory Judgment Action for lack of subject matter jurisdiction under Rule 12(b)(1) of the Federal Rules of Civil Procedure and for failure to state a claim under Rules 8(a) and 12(b)(6) of the Federal Rules of Civil Procedure. Syncora also moved to dismiss the Declaratory Judgment Action, asserting that FGIC was a necessary and indispensable party to the Declaratory Judgment Action and that the Bankruptcy Court should dismiss the adversary proceeding if FGIC’s own rehabilitation proceeding pending in New York state court precluded FGIC’s joinder in the action.

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

On June 28, 2013, the Bankruptcy Court entered an order in the Declaratory Judgment Action (the Declaratory Judgment Action Order). The Declaratory Judgment Action Order provided that: (1) the Declaratory Judgment Action was stayed; (2) the Commission would continue to pay to the sewer warrant trustee on a monthly basis net revenues of the sewer system (without deducting any additional amounts that may be subject to deduction as "Operating Expenses" under the sewer warrant indenture as a result of any ruling by the Bankruptcy Court regarding pending disputes about actually incurred professional fees in the Net Revenues Adversary Proceeding); (3) the sewer warrant trustee would not present any claims or seek to draw on certain sewer insurance policies; and (4) the sewer warrant trustee shall not distribute sewer revenues to the holders of sewer warrants on account of obligations becoming due on or after February 1, 2013. The Declaratory Judgment Action Order stated that the relief granted therein shall remain effective until the earlier of (1) the Effective Date of the Commission's Plan of Adjustment, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the Commission's plan support agreements with certain creditors of the sewer system, and (2) the date of termination of such plan support agreements.

Pursuant to the Commission's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the Commission's debt obligations with respect to the Commission's sewer system, all disputes relating to the sewer warrants and related obligations were compromised, settled and discharged as of the Effective Date, in consideration for the distributions made and other consideration provided on the Effective Date under and through the Plan of Adjustment. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal as discussed above.

*Bennett et al. v. Jefferson County, Alabama, et al.,* United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00120: In the initial complaint, 15 sewer ratepayers sought injunctive and declaratory relief, in addition to damages, against the Commission and other defendants on behalf of several putative classes of customers of the Commission's sewer system. The Commission, named in the initial complaint only as a "nominal defendant," moved for a more definite statement of the claim and moved to strike the class allegations. Other defendants filed motions to dismiss detailing various shortcomings in the opening complaint. The plaintiffs voluntarily dismissed, with prejudice, six of the nine counts of their initial complaint. With respect to the remaining counts, the Bankruptcy Court entered orders granting the Commission's motion for a more definite statement and the Commission's motion to strike the class allegations, deeming moot the other defendants' various motions to dismiss, and giving plaintiffs time to file an amended complaint.

Plaintiffs filed their Second Amended Complaint for a Declaratory Judgment and Injunctive Relief (the Second Amended Complaint) on the Bankruptcy Court's deadline. This complaint named as defendants only the Commission and the indenture trustee for the sewer warrants. This complaint sought the entry of a declaratory judgment that certain series of the Commission's sewer warrants were invalid because they allegedly violated the pre-issuance requirements of the sewer warrant indenture and contravened the Alabama and United States Constitutions. Both the Commission and the indenture trustee responded to the Second Amended Complaint with motions to dismiss.

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

In its reply to the plaintiffs' brief, the Commission requested that the Bankruptcy Court stay the adversary proceeding pending confirmation of the Commission's Plan of Adjustment, on the grounds that confirmation likely will resolve or moot the adversary proceeding. Pursuant to the Plan of Adjustment, the Commission proposes to settle and compromise the claims and causes of action asserted in the adversary proceeding against the indenture trustee, which claims and causes of action the Commission believes belong to the Commission and not to the sewer ratepayers or may be otherwise resolved by the Commission notwithstanding the objection of plaintiffs in the adversary proceeding. The Bankruptcy Court granted the Commission's request to stay the action. The plaintiffs filed a motion for reconsideration of the Bankruptcy Court's order staying the adversary proceeding, which the Bankruptcy Court denied.

During the Bankruptcy Case, Roderick Royal, one of the plaintiffs in the adversary proceeding, filed two proofs of claim on behalf of the putative class of sewer ratepayers. The two proofs of claim, which were duplicates, each assert claims against the Commission in the amount of $1,630,000,000 for, among other things, alleged actual or contemplated overcharges in sewer rates. The Commission filed an objection to these proofs of claim. The Bankruptcy Court conducted a hearing on the Commission's objections to Royal's two proofs of claims on October 17, 2013.

As reflected in the Bankruptcy Court's order entered on November 12, 2013, the Bankruptcy Court sustained the Commission's objection and disallowed Royals' proofs of claim in their entirety. Royal and his fellow claimants moved for reconsideration of the Bankruptcy Court's order disallowing their claims, but those motions were denied.

Royal and his fellow claimants have appealed the Bankruptcy Court's order to the U.S. District Court for the Northern District of Alabama. The District Court has not yet ruled on the Bankruptcy Court's order disallowing Royal's two proofs of claim. The Commission continues to dispute that Royal or any of his fellow claimants are entitled to have their claims allowed in any amount. If and to the extent that Royal was successful on appeal and his claims ultimately allowed, such claims would be treated as General Unsecured Claims under the Plan of Adjustment and, as such, would be entitled to receive only the appropriate pro rata distribution from the $5,000,000 General Unsecured Claims Pool that the Commission funded on the Effective Date pursuant to the Plan of Adjustment. This matter is not yet concluded, and the likely outcome of the appeal is unknown.

Throughout its litigation with the *Bennett* plaintiffs, the Commission consistently argued that the claims asserted by the *Bennett* plaintiffs against parties other than the Commission were claims that belonged to the Commission and, therefore, the Commission could compromise and resolve such claims pursuant to its chapter 9 debt restructuring efforts. Accordingly, the Commission's Plan of Adjustment proposed, as part of its comprehensive compromise and settlement of the Commission's debt obligations with respect to the sewer system, to enjoin the further prosecution by any person of the claims and causes of action asserted in the *Bennett* litigation. In the Confirmation Order, the Bankruptcy Court ruled that the claims asserted by the *Bennett* plaintiffs against parties other than the Commission did indeed belong to the Commission and that the Commission could, through the Plan of Adjustment, propose a binding settlement and release of such claims. Upon the Effective Date, the injunction against the continued prosecution of the *Bennett* litigation became effective, and the Adversary Proceeding pending before the Bankruptcy Court was dismissed with prejudice.

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

The *Bennett* plaintiffs appealed the Confirmation Order to the U.S. District Court for the Northern District of Alabama. The *Bennett* plaintiffs, however, did not seek or obtain a stay of the Confirmation Order pending their appeal, and in accordance with the terms of the confirmed Plan of Adjustment, the Commission proceeded with the substantial consummation of the Plan of Adjustment on December 3, 2013, the Effective Date of the Plan of Adjustment. The Commission has moved to dismiss the *Bennett* plaintiffs' appeal of the Confirmation Order on the grounds that the appeal is constitutionally, equitably and statutorily moot. This matter is not yet concluded, and the likely outcome of the appeal is unknown.

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

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

After dismissing their lawsuit in state court, the City and the Mayor then filed a motion with the Bankruptcy Court requesting relief from the automatic stays to file another complaint in state court challenging the Commission's decision to stop providing inpatient care and to close the emergency room at Cooper Green. The City and the Mayor also filed a complaint with the Bankruptcy Court, naming the Commission and three County Commissioners as defendants in the complaint, thereby commencing adversary proceeding number 12-00133. The factual allegations and requested relief in the second complaint were almost identical to those in the original complaint filed in state court. On October 15, 2012, the Commission filed a motion to dismiss with regard to the City's and the Mayor's complaint in the Bankruptcy Court. The Bankruptcy Court dismissed the City's and Mayor's complaint on February 14, 2013. This matter is concluded.

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

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

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

Moore Oil subsequently filed a proof of claim in the Bankruptcy Case in the amount of $178,916 in which it asserts the claims that it previously asserted in the adversary proceeding. On July 14, 2014, the Bankruptcy Court entered an order withdrawing Moore Oil's proof of claim from the Bankruptcy Case. This matter is concluded.

*Lehman Brothers Special Financing Inc. v. The Bank of New York Mellon, as indenture trustee, et al.* United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00149: In October 2012, Lehman Brothers Special Financing Inc. filed an adversary proceeding in the Bankruptcy Court against the indenture trustee for the Commission's sewer warrants and the Commission seeking a declaration that certain claims asserted by Lehman Brothers on account of certain swap agreements relating to the sewer warrants to which it was a party were entitled to parity treatment with other nonrecourse sewer warrant obligations. Lehman Brothers, the indenture trustee, and the Commission entered into a joint stipulation providing that the Commission shall not be required to answer or further respond to the complaint but shall be bound by any ruling in the adversary proceeding on the issue of whether the indenture trustee is required to treat "the periodic payment component of the Lehman debt," as described in the Lehman Brothers complaint, in parity with debt service on the sewer warrants. The Commission otherwise reserved all rights, claims and defenses including, without limitation, with respect to the allowance or treatment, in a plan or otherwise, of all claims of Lehman Brothers against the Commission. This lawsuit was stayed by consent of the parties pending the Commission's efforts to confirm the Plan of Adjustment and to cause such Plan of Adjustment to become effective.

Pursuant to the Commission's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the Commission's debt obligations with respect to the sewer system, the Commission agreed to make a distribution to Lehman Brothers, from the proceeds of the Commission's issuance of the New Sewer Warrants, in the amount of $1,250,000 in full settlement of Lehman Brother's claims asserted against the Commission in its adversary proceeding and other claims against the Commission. On the Effective Date, the $1,250,000 distribution was made to Lehman Brothers. Under the terms of the Plan of Adjustment and the Confirmation Order, Lehman Brother's claims against the Commission have been discharged, and its adversary proceeding dismissed with prejudice. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal.

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

*Ahmed Farah v. Jefferson County Commission, et al.* United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 13-00002: In January 2013, Dr. Farah filed suit against the Commission and the Commission's chief executive officer claiming money damages in the amount of $276,000 for alleged breach of contract, unjust enrichment and declaratory judgment. The case was settled, and the Bankruptcy Court has entered an order dismissing this adversary proceeding with prejudice. The matter is concluded.

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

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

The Plan of Adjustment ratified and affirmed the Commission's settlement with the Building Authority and the terms of the New Lease. This matter is concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal.

*United States v. Jefferson County, et al.*, United States District Court for the Northern District of Alabama, Southern Division, Case Number 2:75-CV-00666-CLS: This long-running dispute, initially brought by the United States Department of Justice, involves the employment practices of Jefferson County. In 1982, Jefferson County entered into a Consent Decree that required it to take certain actions to remedy past discrimination against African Americans and females. In late 2007, plaintiffs in this action, the Martin/Bryant parties, filed a motion to hold Jefferson County in contempt for failure to implement certain provisions of the Consent Decree requiring the Commission to operate its personnel system in a nondiscriminatory manner.

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

The United States District Court, on August 20, 2013, entered its decision and order finding Jefferson County in contempt of court and informing the parties that a Receiver would be appointed over the Human Resources Department. On October 25, 2013, the Court appointed Dr. Ronald Sims, Ph.D., to serve as the Receiver under the direction of and reporting only to the Court. The Receiver's authority is to exercise full control over nearly all employment decisions of Jefferson County, subject to a court-approved budget, until full and sustainable compliance with the employment discrimination consent decree has been achieved.

Under the Receiver, the Commission will be required to undertake certain (currently unknown) actions with regard to its hiring and promotion processes. Such changes are expected to be financially burdensome. Currently, we have unanswered questions about individual damages claims, and it is impossible to predict the likely outcome of this issue at this time.

It is also nearly certain that the Martin/Bryant parties will seek attorneys' fees and costs in connection with this case. Although it is not possible to know the amount they would seek, given the fact that this case has been pending since the mid-1970s, we would conservatively estimate a fee request in excess of $5 million. Because the Martin/Bryant parties' attorneys have proceeded with this case as a pro bono matter, Jefferson County would fight any order awarding fees, however, given the Commission's experiences with the Court, the Commission reasonably should expect that fees and costs will be awarded. The Commission has accrued an estimated loss related to these fees and costs as of September 30, 2013.

*Request for Administrative Claim filed by Bennett Plaintiffs.* On December 6, 2013, the *Bennett* plaintiffs filed with the Bankruptcy Court their request for the allowance of an administrative claim against the Commission in the amount of $311,300. The *Bennett* plaintiffs filed their request pursuant to Bankruptcy Code section 503(b)(3)(D), which provides that creditors who make a "substantial contribution" in a chapter 9 bankruptcy case may be allowed as an administrative expense the actual and necessary expenses they incurred. The amount of the *Bennett* plaintiffs' request was the amount they claimed to have incurred in legal fees and expenses in connection with the Bankruptcy Case. The Commission objected to the *Bennett* plaintiffs' request, contending, among other things, that the *Bennett* plaintiffs had not provided any contribution whatsoever in the Bankruptcy Case and that they were not eligible to assert such a claim as they were not "creditors" in the case. The Bankruptcy Court held an evidentiary hearing on the administrative claim request on March 20, 2014, at the conclusion of which the Bankruptcy Court asked the *Bennett* plaintiffs to furnish additional information to the Bankruptcy Court with respect to their request. The Bankruptcy Court has not yet ruled on the *Bennett* plaintiffs' administrative claim request. The conclusion of this matter is uncertain. The Commission cannot estimate a loss, if any, with respect to this matter as of September 30, 2013.

*Request for Administrative Claim filed by Norfolk Southern Railway Company.* On December 30, 2013, Norfolk Southern Railway Company filed with the Bankruptcy Court a motion for the allowance of an administrative claim against the Commission in the aggregate amount of $1,630,000. Norfolk Southern's motion seeks a refund of sales taxes paid on the retail sale of diesel fuel to the Commission between the commencement of the Bankruptcy Case and September 30, 2013.

## NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The basis of Norfolk Southern's administrative claim request is similar to the basis underlying the proofs of claims filed by CSX and BNSF described above. The Commission has objected to Norfolk Southern's administrative claim request on several grounds, including that Norfolk Southern is not entitled to any administrative expense claim against the Commission under applicable law. The Commission further noted that the State filed a petition for writ of certiorari with the U.S. Supreme Court asking it to review certain matters that may resolve Norfolk Southern's claim. The Supreme Court granted the State's petition for writ of certiorari on July 1, 2014. The conclusion of this matter is uncertain. The Commission cannot estimate a loss, if any, with respect to this matter as of September 30, 2013.

*Claims for Tax Remittances Made by Certain Municipalities.* In the Bankruptcy Case, certain municipalities located within Jefferson County have filed proofs of claim, asserting claims against the Commission for the remittance of certain tax collections.

During the course of the Bankruptcy Case, the Commission has remitted to municipalities certain tax collections made by the Commission on the municipalities' behalf. Under the confirmed Plan of Adjustment, the claims of municipalities for the remittance of certain tax collections are unimpaired, meaning that the rights of the municipalities with respect to such claims are unaltered by confirmation of the Plan of Adjustment. The Commission reserved all of its rights, claims, counterclaims and defenses with respect to any and all claims asserted by municipalities for the remittance of tax collections. The Commission continues to work with all municipalities in the ordinary course to reconcile their claims for tax collection remittances.

To the extent, however, that municipalities have asserted claims against the Commission for claims other than the remittance of tax collections, the Plan of Adjustment generally treats those claims as impaired General Unsecured Claims which, if allowed, will be entitled only to receive appropriate pro rata distributions from the $5,000,000 General Unsecured Claims Pool funded by the Commission on the Effective Date pursuant to the Plan of Adjustment. The Commission filed objections to the various municipalities' proofs of claim on June 2, 2014.

On July 31, 2014, the County and the City of Bessemer ("Bessemer") executed a settlement agreement resolving certain claims. Among other things, the settlement agreement provides that the City of Bessemer will pay the County a total of $1,087,200.69 and Bessemer would withdraw its proof of claim in the Bankruptcy Case. On August 5, 2014, Bessemer filed a notice of withdrawal of its proof of claim against the County. All other municipalities that filed proofs of claim in the Bankruptcy Case, which include the Town of Mulga, the City of Leeds, the City of Tarrant, and the City of Hueytown, either have voluntarily withdrawn their proofs of claim or have had such proofs of claim disallowed. These matters are concluded, subject to the County's ongoing obligation to remit taxes to municipalities pursuant to applicable law.

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

*Sewer-Rate-Related Stay Relief Litigation.* A series of motions for relief from stay were filed by FGIC (motion filed on March 28, 2012), the indenture trustee for the Commission's sewer warrants (motion filed on November 5, 2012) and a group of sewer warrant holders (the Ad Hoc Group) (motion filed on November 10, 2012) in the Bankruptcy Court seeking relief from the automatic stays to allow the indenture trustee to enforce contractual remedies relating to sewer rates. AGM filed a joinder to the indenture trustee's motion. These stay relief motions generally alleged that the Commission failed to adequately protect the interests of the sewer warrant holders and that other "cause" existed to lift the automatic stays. The motions did not seek damages from the Commission. An evidentiary hearing on the motions was held during the first half of 2013. The Bankruptcy Court has not ruled on the motions.

Prior to the Bankruptcy Court ruling on those motions for relief, the Bankruptcy Court granted the Commission's motion to stay all proceedings on these matters until the earlier of (1) the "Effective Date" of the Plan of Adjustment, or the effective date of some other chapter 9 plan of adjustment that incorporates the provisions of and is otherwise materially consistent with the plan support agreements to which the Commission is a party, and (2) the date of termination of any such plan support agreement.

Pursuant to the Commission's Plan of Adjustment and its comprehensive compromise and settlement of disputes relating to the Commission's debt obligations with respect to the sewer system, all disputes relating to the sewer warrants and related obligations were compromised, settled and discharged as of the Effective Date, in consideration for the distributions made and other consideration provided on the Effective Date under and through the Plan of Adjustment. These matters are concluded subsequent to September 30, 2013, subject to the Confirmation Order not being overturned on appeal.

*Internal Revenue Service Examinations.* The Commission has received and responded to (i) Examination Letters dated May 2, 2011, from the Internal Revenue Service with respect to the Commission's Sewer Revenue Refunding Warrants, Series 2003-B and 2003-C and (ii) an Examination Letter dated June 28, 2012, received from the Internal Revenue Service with respect to The Jefferson County Public Building Authority's Lease Revenue Warrants, Series 2006.

With respect to the May 2, 2011, letter, by agreement of the Commission and the IRS, the examination was later expanded to cover all of the Commission's outstanding sewer warrants. The Commission negotiated a consensual settlement with the IRS documented in a Closing Agreement (the Closing Agreement) to resolve various potential violations of Section 103 of Title 26 of the United States Code with respect to the sewer warrants. The Closing Agreement has been approved by the Commission and executed and delivered to the IRS by the Commission.

The Closing Agreement required payment by the Commission of $4,500,000 prior to execution and delivery of the Closing Agreement by the IRS. Such payment was made by the Commission from revenues of the sewer system on August 27, 2013. The settlement was accrued in the 2012 financial statements.

With respect to the June 28, 2012, letter, the IRS notified the Commission in a letter dated July 23, 2013, that the examination was closed with no change in the position that interest received by the holders of the Series 2006 Lease Revenue Warrants is excludable from gross income under the Internal Revenue Code.

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

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

The employees filed an appeal of their layoffs with the Jefferson County Personnel Board. The Personnel Board ruled that the layoffs were properly done. Thereafter, a three judge panel of Jefferson County Circuit Court judges upheld the Personnel Board's decision and found that the parties did not have a right of appeal of the layoff decision. The case was then appealed to the Alabama Court of Civil Appeals on June 27, 2014. The Personnel Board is defending this matter in the Alabama Court of Civil Appeals. While the outcome of this case is unknown, we know the Personnel Board will vigorously defend this matter.

*Claims Relating to Landfill Operation*. The Commission owns a landfill which it leases to Santek, a private operator. Prior to the commencement of the Bankruptcy Case, the Commission, as a municipality, was excepted from the general requirement that it post a bond or other financial security with the Alabama Department of Environmental Management (ADEM) as a condition to the operation of such landfill.

ADEM has advised the Commission that ADEM does not believe that the Commission is currently entitled to benefit from such exception and, accordingly, has requested that a bond or other financial security be posted with ADEM. In February 2013, the Commission established a joint trust fund with Santek for the purpose of satisfying the ADEM financial assurance obligation.

The Commission is currently defending various other lawsuits. In addition, claims against the Commission have been filed that have not yet resulted in lawsuits. The Commission shall continue to consult with legal counsel regarding these lawsuits and claims and defend against them. As of September 30, 2013, the Commission has accrued estimated litigation payments in the accompanying statement of net position.

Additionally, a process was established in the Bankruptcy Case pursuant to which any party asserting a claim against the Commission arising before the commencement of the Bankruptcy Case could file a "proof of claim" against the Commission. To date, over one thousand proofs of claim have been filed in the Bankruptcy Case. The Commission has objected to many of these proofs of claim on various grounds. As noted above, to the extent that proofs of claim are allowed and treated as General Unsecured Claims under the Plan of Adjustment, the confirmed Plan of Adjustment provides that the holders of such claims will receive on account of such claims their appropriate pro rata distribution from the $5,000,000 General Unsecured Claims Pool funded by the Commission on the Effective Date. Accordingly, the Commission's maximum exposure with respect to General Unsecured Claims is effectively capped at $5,000,000, which exposure has been funded by the Commission from the Commission's general fund on the Effective Date.

## NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The Plan of Adjustment also designated certain claims as Other Unimpaired Claims. To the extent that claims are treated as Other Unimpaired Claims under the Plan of Adjustment, the rights of the holders of those claims are not altered by the Plan of Adjustment. Under the Plan of Adjustment, the Commission reserved all of its rights, claims, counterclaims and defenses with respect to any and all such unimpaired claims.

Additionally, a process was established in the Bankruptcy Case pursuant to which any party asserting a claim against the Commission arising during the Bankruptcy Case could file with the Bankruptcy Court a request for allowance of an administrative claim against the Commission. The deadline for filing requests for allowance of administrative expense claims was January 31, 2014. Only four requests for allowance of an administrative claim were filed by that deadline. Of those requests, only two of them - the request filed by Norfolk Southern and the request filed by Calvin Grigsby on behalf of the *Bennett* plaintiffs - assert material claims against the Commission. Those two requests are described specifically above. Under the Plan of Adjustment, claims for administrative expenses that are allowed by order of the Bankruptcy Court may be subject to payment in full by the Commission from its general fund.

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

## NOTE T - UNCERTAINTIES

The Commission, as an instrumentality of the State of Alabama, has only such taxing authority and other governmental powers as are specifically granted to it, either under provisions of Alabama’s Constitution or by legislative act. This lack of “home rule” severely restricts the Commission’s ability to levy taxes or otherwise raise revenue for the benefit of the general operating fund (the General Fund).

Within the past several years, the General Fund lost one of its primary revenue sources. On December 1, 2010, the Circuit Court of Jefferson County ruled that Act 2009-811 of the Alabama Legislature, pursuant to which the Commission had levied an occupational and business license tax, was unconstitutional. The Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional but did not decide the question whether the Commission would be required to refund the taxes collected prior to December 1, 2010. On November 16, 2012, the Supreme Court of Alabama ruled that the Commission was not required to refund taxes collected prior to December 1, 2010. See Note S for a discussion of the related litigation.

The loss of the occupational and business license tax eliminated over $75 million of annual General Fund revenues used to fund the Commission's general operations and payment of long-term general obligations. Legislative efforts to restore or replace the occupational and business license tax revenues have not been successful to date.

**NOTE T - UNCERTAINTIES - Continued**

In response to the loss of the occupational tax, and in order to maintain a balanced budget as required by State law, the Commission has made substantial cuts to both its staffing and services and has significantly reduced its annual expenditures. The Commission has reduced its work force by more than 1,000 workers, severely limiting its ability to continue to offer core and essential governmental functions. The restructuring of the Commission's GO Warrants pursuant to the confirmed Plan of Adjustment (See Note W - Bankruptcy and Restructuring) has provided some relief to the General Fund, but the General Fund continues to feel the effects of the loss of the occupational tax revenue stream and the Commission's continuing obligation to fund the provision of basic and critical services to the Commission's constituents. While the Legislature may take action in the future to restore the occupational tax or to otherwise enhance the General Fund revenues, the outcome of any legislative efforts cannot be assured at this time.

There is a risk that the Legislature could place restrictions on the Commission's existing or new revenue streams. The Legislature has the ability to "earmark" certain Commission revenue sources and has done so extensively in the past. An "earmark" restricts the use of tax revenues for limited, specific purposes determined by the legislative body imposing the restriction. The Commission generally disfavors the earmarking of its revenue sources as it limits the Commission's ability to exercise its judgment as to the best use of Commission resources. The Commission has tried in the past to convince the Legislature to remove earmarks from certain of the Commission's remaining revenue sources, but those efforts have been unsuccessful. The Commission is hopeful that the Legislature will not place additional earmarks on the Commission's existing revenue sources, and the Commission is not aware of any current legislative efforts to impose additional earmarks. However, additional earmarks on Commission revenues nevertheless could be adopted by the Legislature over the opposition of the Commission. The imposition of additional earmarks on Commission tax revenue could have an adverse effect on the Commission's ability to perform its financial obligations.

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

The overall financial health of the County will be affected by, and will be subject to, general economic and political events and conditions that will change in the future to an extent and with effects that cannot be determined at this time. These general economic and political events and conditions include, among other things, population, demographic and employment changes and trends; periods of inflation or deflation; variable patterns of national and regional economic growth, whether cyclical or structural in nature; disruptions in credit and financial markets; political gridlock concerning, among other matters, national tax and spending policies; political developments in the County, the municipalities within the jurisdiction of the County and the State; budget and debt limit controversies, both nationally, at the State level and locally; and unusually large numbers of business failures and business and consumer bankruptcies and policy responses, or lack thereof, to the foregoing.

## NOTE U - 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 revenue anticipation warrant dated May 3, 2000. The Board simultaneously executed a capital lease agreement with the Commission for the aforementioned property and pledged tax proceeds for the lease payments which will approximate debt service requirements under the Jefferson County Commission's Limited Obligation School Warrants, Series 2000.

The warrants do not constitute a debt or pledge of the faith and credit of the Jefferson County Commission and, accordingly, have not been reported in the accompanying financial statements. Upon repayment of the warrants, ownership of the leased property will return to the Board. As of September 30, 2013, the principal amount outstanding was $21,485.

## NOTE V - SUBSEQUENT EVENTS (amounts in thousands)

Subsequent to September 30, 2013, the Commission issued various warrants pursuant to the Commission's Plan of Adjustment (see Note L - Issuance of New Warrants and Note W - Bankruptcy and Restructuring).

The following are the additional subsequent events and Material Event Notices filed by the Commission subsequent to September 30, 2013.

### BUSINESS TYPE ACTIVITIES

### Material Event Notices

***November 12, 2013***
The November 12, 2013, Material Event Notice disclosed that the Commission approved a further amended proposed Financing Plan on October 31, 2013. On November 6, 2013, the Commission filed a further revised Plan of Adjustment with the Bankruptcy Court. A hearing at which the Bankruptcy Court considered whether to approve the Disclosure Statement was scheduled for November 20, 2013. See Note W - Bankruptcy and Restructuring.

***December 30, 2013***
The December 30, 2013, Material Event Notice disclosed the Bankruptcy Court's entry of an order confirming the Plan of Adjustment on November 22, 2013 (the Confirmation Order). The Confirmation Order provided that the Plan of Adjustment would not become effective until certain conditions of the Plan of Adjustment were either met or waived. On December 3, 2013, such certain conditions of the Plan of Adjustment were either satisfied or waived in accordance with the Confirmation Order and the Plan of Adjustment, whereupon the Commission filed notice of the effective date of the Plan of Adjustment (the Effective Date). On the Effective Date, the Commission issued its New Sewer Warrants and used a portion of the proceeds of those Warrants to pay all of the outstanding Retired Sewer Warrants pursuant to the terms and in the amounts set forth in the Plan of Adjustment and the Confirmation Order. See Note W - Bankruptcy and Restructuring.

**NOTE V - SUBSEQUENT EVENTS - Continued**

***April 7, 2014***

The April 7, 2014, Material Event Notice disclosed a rating upgrade related to the Series 2013 Senior Lien Sewer Revenue Warrants (Series-A, Series B and Series-C) insured by AGM. On March 18, 2014, the long-term insured rating assigned to the Warrants by S&P was raised to "AA" from "AA-". The current long-term insured rating of the Warrants is classified as "Outlook Stable" by S&P.

**Trustee's Suspension of Debt Service Payments on Sewer Warrants**

The Trustee had been applying net sewer system revenues received from the Commission, pursuant to the Indenture, first to the payment of interest due and second, to the payment of principal. The holders of certain sewer warrants had consented in the past to the Trustee making such distributions. However as of the February 1, 2013 Notice to Holders issued by the Trustee and disclosed in the February 1, 2013, Material Event Notice (discussed above), the Trustee had been informed that certain holders of Bank Warrants were not in agreement with the planned distributions which ignored existing principal payment defaults on the Bank Warrants and any required mandatory sinking fund redemption requirements.

In addition, disagreements existed over certain interpretations of the Indenture, including the acceleration of certain Sewer Warrants, the effect of acceleration on the insurer's obligations and how to apply proceeds of draws under the Reserve Policies after any acceleration.

As a result, the Trustee filed with the Bankruptcy Court a complaint for declaratory judgment to determine these disputes and a motion for relief from the automatic stay to permit the Trustee in its discretion to accelerate, effective as of February 1, 2013, the Sewer Warrants (the Declaratory Judgment Action). As a result of these developments, the Trustee suspended any distributions of net sewer system revenues and any draws on insurance policies securing the Sewer Warrants. See Note S - Contingent Liabilities and Litigation for a description of the Declaratory Judgment Action.

Certain principal and interest payments were made with the ultimate confirmation of the bankruptcy settlement - see Note W - Bankruptcy and Restructuring.

**GOVERNMENTAL ACTIVITIES**

***Notices of Default***

**Notices of Default - GO Series 2003-A and 2004-A Warrants**

The Bank of New York Mellon serves as Paying Agent for the GO Series 2001-A Warrants and U.S. Bank (as successor to SouthTrust Bank) serves as Paying Agent for the GO Series 2004-A Warrants.

U.S. Bank provided written Notices of Events of Default dated October 4, 2012, April 2, 2013 and October 4, 2013, for the GO Series 2004-A Warrants, due to payment defaults for the Commission's failure to pay the entire principal and interest payments due on the Warrants on October 1, 2012, April 1, 2013 and October 4, 2013. As required by Article 4(A) of Annex A of the Indenture, when sufficient payment was not received to pay the interest due on the Warrants, U.S. Bank notified the Bond Insurer, who notified U.S. Bank of such intent to make the payments due. U.S. Bank distributed all of the money received from the Bond Insurer prior to the date of the Notices.

**NOTE V - SUBSEQUENT EVENTS - Continued**

When the Commission failed to pay the entire principal and interest payments due on the GO Series 2003-A Warrants on April 1, 2012, October 1, 2012 and April 1, 2013, the Bond Insurer made the principal and interest payments to The Bank of New York Mellon on behalf of the Commission. The Bank of New York Mellon distributed all of the money received from the Bond Insurer to the holders of the Series 2003-A Warrants.

**Material Event Notices**

***October 3, 2013***
The October 3, 2013, Material Event Notice disclosed that debt service payments on the GO Series 2001-B, 2003-A and 2004-A Warrants were due on October 1, 2013. The debt service payments for the GO Series 2003-A and 2004-A Warrants, which are insured by National, were paid by draws on the National policies. The Commission suspended further debt service payments on these Warrants until such debt service could be restructured under the Commission's Plan of Adjustment - see Note W - Bankruptcy and Restructuring.

***October 25, 2013***
The October 25, 2013, Material Event Notice disclosed the appointment of UMB Bank, n.a. as successor trustee (the Successor Trustee) to Wells Fargo Bank, N.A. (the Trustee) for the GO Series 2001-B Warrants. The appointment was subject to the Successor Trustee's written acceptance of the appointment.

The Successor Trustee's appointment became effective upon delivery to the Commission and the Trustee of an Instrument of Removal, Appointment and Acceptance dated as of October 21, 2013, whereby (i) Bayerische Landesbank Girozentrale ("BLB"), as holder of a majority in principal amount of outstanding Warrants, removed the Trustee, (ii) BLB appointed the Successor Trustee and (iii) the Successor Trustee accepted the appointment of trustee under the Indenture.

***November 12, 2013***
The November 12, 2013, Material Event Notice disclosed that the Commission approved a further amended proposed Financing Plan on October 31, 2013. On November 6, 2013, the Commission filed a further revised Plan of Adjustment with the Bankruptcy Court. A hearing at which the Bankruptcy Court would consider whether to approve the Disclosure Statement was scheduled for November 20, 2013. See Note W - Bankruptcy and Restructuring.

***December 23, 2013***
The December 23, 2013, Material Event Notice disclosed that the Commission entered into a Second Supplemental Indenture with the Trustee for the Commission's LO Series 2004-A and LO Series 2005-A and 2005-B Warrants. The Second Supplemental Indenture documented those provisions of the Commission's Plan Support Agreement with Depfa Bank PLC that effected amendments to the LO Series 2004 Warrant Indenture dated as of December 1, 2004 (as subsequently supplemented and amended by a First Supplemental Indenture). See Note J - Warrants Payable for the February 15, 2013, Material Event Notice describing the Plan Support Agreement.

**NOTE V - SUBSEQUENT EVENTS - Continued**

In addition, the underlying rating assigned to the LO Series 2004 Warrants and LO Series 2005-A and 2005-B Warrants was reduced from "B" to "D" by S&P on December 18, 2013, due to S&P's belief that a "distressed exchange" took place on the Effective Date as a result of the provisions of the Plan Support Agreement with Depfa Bank PLC and the Second Supplemental Indenture. On December 20, 2013, S&P revised the underlying rating assigned to the Warrants from "D" to "BBB" based upon S&P's determination that a "distressed exchange" did not, in fact, occur on the Effective Date. The current underlying rating of the Warrants was classified as "Outlook Stable" by S&P.

***December 30, 2013***
The December 30, 2013, Material Event Notice disclosed the Bankruptcy Court's entry of an order confirming the Plan of Adjustment on November 22, 2013 (the Confirmation Order). The Confirmation Order provided that the Plan of Adjustment would not become effective until certain conditions of the Plan of Adjustment were either met or waived. On December 3, 2013, such certain conditions of the Plan of Adjustment were either satisfied or waived in accordance with the Confirmation Order and the Plan of Adjustment, whereupon the Commission filed notice of the effective date of the Plan of Adjustment.

***February 19, 2014***
The February 19, 2014, Material Event Notice disclosed that on February 18, 2014, the underlying rating assigned to the GO Series 2003-A and 2004-A Warrants was upgraded from 'Caa3' to 'Ba3' by Moody's. The current underlying rating of the Warrants is classified as "Outlook Stable" by Moody's.

***February 19, 2014***
On February 18, 2014, Moody's also upgraded the underlying rating on the LO Series 2004 Warrants and the LO Series 2005-A and 2005-A and B Warrants from 'B3' to 'Ba3'. The current underlying rating of the Warrants is classified as "Outlook Stable" by Moody's.

***February 19, 2014***
Likewise, on February 18, 2014, Moody's upgraded the underlying rating on the LR Series 2006 Warrants from 'Ca' to 'B1'. The current underlying rating of the Warrants is classified as "Outlook Stable" by Moody's.

***April 7, 2014***
The April 7, 2014, Material Event Notice disclosed a rating upgrade related to the GO Series 2003-A and 2004-A Warrants insured by National. On March 18, 2014, the long-term insured rating assigned to the Warrants by S&P was raised to "AA-" from "A" . The current long-term insured rating of the Warrants is classified as "Outlook Stable" by S&P.

***May 30, 2014***
The May 30, 2014, Material Event Notice disclosed a rating upgrade related to the GO Series 2003-A and 2004-A Warrants insured by National. On May 21, 2014, the long-term insured rating assigned to the Warrants by Moody's was raised to "A3" from "Baa1". The current long-term insured rating of the Warrants is classified as "Stable Outlook" by Moody's.

## NOTE V - SUBSEQUENT EVENTS - Continued

### Bankruptcy and Restructuring

The Plan of Adjustment for the Commission relating to the bankruptcy and reorganization was confirmed on November 22, 2013, with an Effective Date of December 3, 2013. See Note W - Bankruptcy and Restructuring.

Current GASB accounting guidance states that the accounting and financial impact of a bankruptcy are not recorded by the entity until the confirmation date of the bankruptcy. As a result, all financial transactions resulting from the Plan of Adjustment will be recorded for the Commission in fiscal 2014. Note W - Bankruptcy and Restructuring includes a summary of the financial impact to the Commission from the Plan of Adjustment.

With the bankruptcy confirmation, the Commission also retired certain warrant series and issued new warrants. The entire Sewer Revenue Warrant Series were retired as well as the GO Series 2001-B Warrants. The issuance of new warrants is presented in Note L to the financial statements. The Plan of Adjustment also contemplated a final waiver of all defaults on the outstanding warrant issues. As such, the Commission made all such payments contemplated under the Plan of Adjustment for stated and mandatory principal and interest payments due and unpaid as of December 3, 2013. As discussed further in Note W - Bankruptcy and Restructuring, certain default and other interest, penalties and fees, interest rate swap termination fees and other amounts previously accrued were waived as part of the Plan of Adjustment effective December 3, 2013.

Certain payments due to National were scheduled to be paid over time (see discussion in Note W - Bankruptcy and Restructuring). The Commission elected to make a prepayment of $4,894 in July 2014 for $8,562 of payments due from years 2025 to 2027 (which represents the present value of such payments using a 4.9 percent discount rate pursuant to the Plan of Adjustment).

## NOTE W - BANKRUPTCY AND RESTRUCTURING (amounts in thousands)

The Commission, upon due authorization from the Commission, filed for relief under Chapter 9 of the United States Bankruptcy Code, 11 U.S.C. § 101, *et seq.* (the Bankruptcy Code), on November 9, 2011 (the Filing Date), in the United States Bankruptcy Court for the Northern District of Alabama (the Bankruptcy Court), thereby commencing the case styled *In re Jefferson County, Alabama,* Case No. 11-05736 (the Bankruptcy Case).

On June 30, 2013, the Commission filed with the Bankruptcy Court its *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated June 30, 2013)* and its accompanying *Disclosure Statement Regarding Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated June 30, 2013).* On July 29, 2013, the Commission filed amended versions of those two documents, which were titled, respectively, the *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated July 29, 2013)* and the *Disclosure Statement Regarding Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated July 29, 2013).* By order dated August 7, 2013, the Bankruptcy Court approved the Commission's July 29, 2013 version of the disclosure statement (as approved, the Disclosure Statement) and scheduled the confirmation hearing on the Commission's Chapter 9 Plan of Adjustment.

**NOTE W - BANKRUPTCY AND RESTRUCTURING - Continued**

On November 6, 2013, the Commission filed with the Bankruptcy Court a further modified Chapter 9 plan, which was titled the *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated November 6, 2013)*. On November 22, 2013, after conclusion of the confirmation hearing, the Bankruptcy Court entered its order (the Confirmation Order) confirming the Commission's November 6, 2013 Plan of Adjustment (as confirmed, the Plan of Adjustment).

The named plaintiffs in the *Bennett et al. v. Jefferson County, Alabama* litigation (described in Note S - Contingent Liabilities and Litigation) objected to confirmation of the Plan of Adjustment and have appealed the Confirmation Order to the U.S. District Court for the Northern District of Alabama. The *Bennett* plaintiffs, however, did not seek or obtain a stay of the Confirmation Order pending their appeal. On December 3, 2013, the Commission substantially consummated all the transactions contemplated by the Plan of Adjustment, and all other conditions to the effectiveness of the Plan of Adjustment were either satisfied or waived. Accordingly, December 3, 2013 is the Plan of Adjustment's "Effective Date", as that term is defined in the Plan of Adjustment. The Commission has moved to dismiss the *Bennett* plaintiffs' appeal of the Confirmation Order on the grounds that the appeal is constitutionally, equitably and statutorily moot. Oral argument on the Commission's motion to dismiss the appeal is scheduled for 2014. The appeal is not yet concluded. See Note S - Contingent Liabilities and Litigation.

The Plan of Adjustment, as confirmed by the Confirmation Order, sets forth the manner in which the Commission proposed to adjust and treat all claims (herein Claims) in the Bankruptcy Case. The Plan of Adjustment, the Confirmation Order and the Disclosure Statement are all public documents and available for review. For a complete understanding of the Plan of Adjustment, as confirmed, and its terms, the Plan of Adjustment (including all exhibits and appendices attached thereto), the Confirmation Order and the Disclosure Statement should be reviewed. Following is a brief summary of some of the material terms of the Plan of Adjustment.

**Settlement of Sewer Warrant Claims and Related Obligations**
The Plan of Adjustment was structured around a series of significant interrelated, multiparty compromises and settlements, including releases and injunctions, among the Commission and various creditors, most notably certain holders of the Commission's outstanding sewer warrants (the Sewer Warrants), insurers of the Sewer Warrants and liquidity providers for the Sewer Warrants.

Through the Plan of Adjustment's compromises and settlements, the Commission realized more than $1,200,000 of concessions from the holders of the Sewer Warrants, the insurers of the Sewer Warrants and the liquidity providers for the Sewer Warrants, plus the elimination of approximately $79,000 in swap termination fees and accrued interest relating to the Sewer Warrants.

To refund and retire fully the Sewer Warrants on these compromised terms, the Plan of Adjustment provided for the issuance by the Commission of new sewer warrants in an amount sufficient to make approximately $1,800,000 of distributions to the holders of Sewer Warrants and related claims. On the December 3, 2013, Effective Date of the Plan of Adjustment, the Commission issued and sold its new Sewer Revenue Warrants, Series 2013-A through Series 2013-F, in the aggregate principal amount of $1,785,487 (the "New Sewer Warrants"), the net proceeds of which were used to retire the Sewer Warrants and other debts relating to the Sewer Warrants in accordance with the terms of the confirmed Plan of Adjustment (as discussed in Note L - Issuance of New Warrants).

## NOTE W - BANKRUPTCY AND RESTRUCTURING - Continued

**Settlement of Other Significant Commission Liabilities**
The Plan of Adjustment also implemented a series of settlements concerning the Commission's other significant liabilities, including the following:

Certain Series 2001-B General Obligation Debt Claims. The Commission's GO Series 2001-B Warrants were issued as variable rate demand warrants, were tendered for purchase and were subsequently purchased by the liquidity providers for such warrants.

The Plan of Adjustment reflected the terms of a plan support agreement negotiated among the Commission, the liquidity providers and the trustee for these warrants setting forth the terms and provisions pursuant to which these GO Series 2001-B Warrants would be exchanged for new warrants and the agreement of one such liquidity provider that also was the counterparty to an interest rate swap agreement executed in connection with the GO Series 2001-B Warrants to accept the sum of ten dollars ($10.00) in full, final and complete settlement, satisfaction, release and exchange of its claim for a $7,894 termination payment relating to such interest rate swap agreement.

On the December 3, 2013 Effective Date, the Commission issued its new GO Series 2013 Warrants, which, in accordance with the confirmed Plan of Adjustment, were exchanged for the GO Series 2001-B Warrants. In addition, the Commission paid ten dollars ($10.00) to the counterparty to an interest rate swap agreement relating to the GO Series 2001-B Warrants in full satisfaction of the counterparty's $7,894 swap termination payment.

Certain General Obligation Series 2003-A and Series 2004-A Warrant Claims. The GO Series 2003-A and 2004-A Warrants were insured by National. As of the Petition Date, the Commission had paid all scheduled principal and interest payments on these Warrants when due. Following the filing of the Bankruptcy Case, the Commission ceased making payments, and all principal and interest payments scheduled to come due during the duration of the Bankruptcy Case were paid by National pursuant to the municipal bond insurance policies.

The Plan of Adjustment reflected the terms of a plan support agreement negotiated between National and the Commission, which involved the settlement and compromise of numerous potential claim allowance and priority disputes between National and the Commission. Specifically, the Plan of Adjustment provided that National would receive a full recovery on the principal that National paid to holders of these warrants during the Bankruptcy Case, which recovery is split between two payments in 2014 and 2015.

The Plan of Adjustment also provided that the Commission would repay approximately $503 of pre-Filing Date interest in 2014 and $8,500 of post-Filing Date interest that National paid to holders of these warrants during the Bankruptcy Case in three payments in 2025, 2026 and 2027. The post-Filing Date obligations are noninterest bearing and subject to the Commission's right to prepay such amounts in whole or in part using a 4.90-percent discount rate. Finally, the Plan of Adjustment provided for a compromise and settlement of National's Claim for its fees and expenses through a single payment of $1,500 to National on the effective date of the Plan of Adjustment.

**NOTE W - BANKRUPTCY AND RESTRUCTURING - Continued**

On the Effective Date of December 3, 2013, the Commission, in accordance with the terms of the confirmed Plan of Adjustment, paid all amounts due to be paid in accordance with its agreements with National, and executed and delivered to National other documents evidencing the Commission's obligations under the Plan of Adjustment to make future payments for certain principal and interest paid by National to holders of the GO Series 2003-A and GO Series 2004-A Warrants. Also, see Note V-Subsequent Events for payment made subsequent to the Effective Date.

Certain School Debt Claims. The Commission's LO Series 2005-B Warrants were issued as variable rate demand warrants, and liquidity support was provided by Depfa Bank PLC. In 2008, the principal amount of the Series 2005-B School Warrants then outstanding was tendered by investors and purchased by Depfa Bank PLC, and such Series 2005-B School Warrants were held as "bank warrants" for the benefit of Depfa Bank PLC pursuant to the standby purchase agreement between the Commission and Depfa Bank PLC.

The Plan of Adjustment reflects the terms of a plan support agreement negotiated between Depfa Bank PLC and the Commission whereby, among other things, the parties agreed on the amount of interest payable on the Series 2005-B School Warrants held by Depfa Bank PLC, and the Commission agreed to use certain future tax proceeds to redeem Series 2005-B School warrants held by Depfa Bank PLC.

On the Effective Date of December 3, 2013, the Commission, in accordance with the terms of the confirmed Plan of Adjustment, performed all its obligations then due in accordance with its agreements with Depfa.

Bessemer Lease Claims: As discussed in Note J - Warrants Payable, the Building Authority issued the LR Series 2006 Warrants, under which the Building Authority and the Commission entered into a lease (the Bessemer Lease) pursuant to which the Commission agreed to make rental payments on such dates and in such amounts sufficient to provide for the payment of debt service on the LR Series 2006 Warrants.

As of the Petition Date, the Commission's rent obligations under the Bessemer Lease exceeded $8,000 per year on an annualized basis. After evaluating its options, the Commission concluded that, given its cash flow constraints, it could no longer continue to maintain its obligations under the Bessemer Lease as originally structured. The Commission engaged in settlement discussions but was unable to reach a settlement prior to the lease rejection deadline under the Bankruptcy Code. Consequently, prior to such rejection deadline, the Commission moved to reject the Bessemer Lease.

Objections to the motion to reject were filed, but the Commission continued negotiations, which resulted in a stipulation among various interested parties that contemplated, among other things, the execution of a new lease (the New Bessemer Lease), which would extend the term of the Bessemer Lease from 2026 to 2037 and substantially reduce the annual rent payments due from the Commission.

Following a hearing to consider the objection of one creditor, the Bankruptcy Court entered an order on December 20, 2012, approving the New Bessemer Lease, which was executed by the Building Authority and the Commission in January 2013 (also see discussion in Note J - Warrants Payable).

**NOTE W - BANKRUPTCY AND RESTRUCTURING - Continued**

Under the confirmed Plan of Adjustment, in full, final and complete settlement, satisfaction, release and exchange of all Claims relating to the Bessemer Lease, the Commission agreed to recognize and perform all of its obligations under the New Bessemer Lease and ratified its obligations under the New Bessemer Lease.

Other Unsecured Claims. The Plan of Adjustment provided that General Unsecured Claims against the Commission arising prior to the Petition Date would receive a pro rata distribution of a $5,000 General Unsecured Claims Pool established for their benefit by the Commission under the Plan of Adjustment.

The Plan of Adjustment provided for no distributions to be made on account of General Unsecured Claims other than the pro rata distributions from the General Unsecured Claims Pool. Upon the Plan of Adjustment becoming effective, the Commission and its property would be discharged and released of and from the General Unsecured Claims.

On the Effective Date of December 3, 2013, the Commission, in accordance with the terms of the confirmed Plan of Adjustment, funded the General Unsecured Claims Pool by depositing cash in the amount of $5,000 into a segregated, interest-bearing account established under the Plan of Adjustment for the benefit of holders of Allowed General Unsecured Claims in the Bankruptcy Case.

Among the General Unsecured Claims are the claims of several landlords whose real estate leases with the Commission were rejected by the Commission in the Bankruptcy Case and of certain third parties whose economic development agreements were similarly rejected during the Bankruptcy Case. The total amount of General Unsecured Claims that will be entitled to receive distributions under the Plan of Adjustment is not yet known, but the Commission projects that the amount will exceed the $5,000 on deposit in the General Unsecured Claims Pool.

Other Unimpaired Claims. The Plan of Adjustment also designated certain claims as Other Unimpaired Claims. To the extent that claims are treated as Other Unimpaired Claims under the Plan of Adjustment, the rights of the holders of those claims were not altered by the Plan of Adjustment or the Confirmation Order. Among those claims identified in the Plan of Adjustment as Other Unimpaired Claims were the following claims, all as defined under the Plan of Adjustment: Consent Decree Claims, Deposit Refund Claims, Eminent Domain Claims, Employee Compensation Claims, Employee Indemnification Claims, OPEB Plan Claims, Pass-Through Obligation Claims, Retirement System Claims, Tax Abatement Agreement Claims and Workers Compensation Claims.

Under the Plan of Adjustment, the Commission reserved all of its rights, claims, counterclaims and defenses with respect to any and all such unimpaired claims.

**The Discharge and Release of the Commission under the Plan of Adjustment**

The Plan of Adjustment provided that rights afforded in the Plan and the treatment of all claims by the Plan of Adjustment would be in exchange for and in complete settlement, satisfaction, discharge and release of, and injunction against, all claims of any nature whatsoever arising prior to the Effective Date against the Commission or its property, including any interest accrued on such claims from and after the Petition Date.

## NOTE W - BANKRUPTCY AND RESTRUCTURING - Continued

The Plan of Adjustment specifically provided that, except as otherwise provided in the Plan of Adjustment or the Confirmation Order, on the Effective Date, the Commission and its property would be discharged and released to the fullest extent permitted by Bankruptcy Code Section 944(b) from all claims and rights that arose before the Effective Date, including all debts, obligations, demands and liabilities and all debts of the kind specified in Bankruptcy Code Sections 502(g), 502(h) or 502(i).

The Plan of Adjustment also provided for numerous releases among various parties, including the release of the Commission, as well as members of the Commission, employees of Jefferson County and other representatives and affiliates of Jefferson County, of and from various claims and causes of action, with such releases to become effective on the Effective Date of the Plan of Adjustment (also See Note S - Contingent Liabilities and Litigation).

**Summary of Financial Impact of Bankruptcy and Restructuring**

The Plan of Adjustment for the Commission relating to the bankruptcy and reorganization was confirmed on November 22, 2013, with an Effective Date of December 3, 2013. Current GASB accounting guidance states that the accounting and financial impact of a bankruptcy are not recorded by the entity until the confirmation date of the bankruptcy. As a result, all financial transactions resulting from the Plan of Adjustment will be recorded for the Commission in fiscal 2014.

With the bankruptcy confirmation, the Commission retired certain warrant series and issued new warrants. The entire Sewer Revenue Warrant Series (totaling $3,107,518 as of September 30, 2013) were retired as well as the GO Series 2001-B Warrants (totaling $105,000 as of September 30, 2013). New sewer warrants totaling $1,785,487 and GO Warrants of $105,000 were issued as of December 3, 2013. A summary of the new warrants issued and terms are presented in Note L - Issuance of New Warrants. The Commission realized a gain on the restructuring of the sewer warrants of approximately $1,300,000, net of issuance costs and other fees for the new warrants issued. In addition, amounts outstanding at September 30, 2013 for bond issue costs (approximately $42,163), unamortized premium ($5,902) and deferred loss on prior refundings (approximately $247,718) were written off with the retirement of the sewer warrants.

The Plan of Adjustment also contemplated a final waiver of all defaults on the outstanding warrant issues. As such, the Commission made all such payments contemplated under the Plan of Adjustment for stated and mandatory principal and interest payments due and unpaid as of December 3, 2013, to warrant holders, bond insurers and liquidity providers (banks).

Certain default and other interest, penalties and fees, interest rate swap termination fees and related accrued interest and other amounts previously accrued totaling approximately $229,000 were waived as part of the Plan of Adjustment effective December 3, 2013.

The Sewer Revenue Warrants and GO Series 2001-B Warrants will be retired and the new Series 2013 Warrants and all financial transactions resulting from the Plan of Adjustment (as discussed above) will be recorded for the Commission in fiscal 2014.

# REQUIRED SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
BUDGET AND ACTUAL - GENERAL FUND (UNAUDITED)
FOR THE YEAR ENDED SEPTEMBER 30, 2013

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Budgeted Amounts | | Actual Amounts | Actual Amounts |
| | Original | Final | Budgetary Basis | GAAP Basis |
| **Revenues** | | | | |
| Taxes | $ 86,055 | $ 86,058 | $ 84,848 | $ 84,848 |
| Licenses and permits | 8,215 | 8,215 | 9,309 | 9,309 |
| Intergovernmental | 26,465 | 23,538 | 26,986 | 26,986 |
| Charges for services, net | 36,059 | 36,220 | 28,168 | 28,168 |
| Miscellaneous | 840 | 840 | 3,941 | 3,941 |
| Interest and investment income | 625 | 625 | 231 | 231 |
| | 158,259 | 155,496 | 153,483 | 153,483 |
| **Expenditures** | | | | |
| Current: | | | | |
| General government | 129,505 | 130,021 | 106,451 | 106,451 |
| Public safety | 53,490 | 54,417 | 53,722 | 53,722 |
| Highway and roads | 3,497 | 3,497 | 2,686 | 2,686 |
| Education - other | - | - | - | - |
| Capital outlay | - | - | 1,934 | 1,934 |
| Indirect expenses | - | - | (7,829) | (7,829) |
| Debt service: | | | | |
| Principal retirement | - | - | 217 | 217 |
| Interest and fiscal charges | - | - | 38 | 38 |
| | 186,492 | 187,935 | 157,219 | 157,219 |
| **Excess (Deficiency) of Revenues over Expenditures** | (28,233) | (32,439) | (3,736) | (3,736) |
| **Other Financing Sources (Uses)** | | | | |
| Sale of capital assets, net | - | - | 343 | 343 |
| Transfers in | - | - | 38,262 | 38,262 |
| Transfers out | - | - | (1,025) | (1,025) |
| | - | - | 37,580 | 37,580 |
| **Net Changes in Fund Balances** | (28,233) | (32,439) | 33,844 | 33,844 |
| **Fund Balances - beginning of year** | 85,691 | 85,691 | 85,691 | 85,691 |
| **Fund Balances - end of year** | $ 57,458 | $ 53,252 | $ 119,535 | $ 119,535 |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**
**BUDGET AND ACTUAL - LIMITED OBLIGATION SCHOOL FUND (UNAUDITED)**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Budgeted Amounts | | Actual Amounts | Actual Amounts |
| | Original | Final | Budgetary Basis | GAAP Basis |
| **Revenues** | | | | |
| Taxes | $ 85,143 | $ 85,143 | $ 91,830 | $ 91,830 |
| Interest and investment income | - | - | 110 | 110 |
| | 85,143 | 85,143 | 91,940 | 91,940 |
| **Expenditures** | | | | |
| General government | 100 | 100 | 182 | 182 |
| Debt service: | | | | |
| Principal retirement | 40,070 | 40,070 | 55,450 | 55,450 |
| Interest and fiscal charges | 44,973 | 44,973 | 36,261 | 36,261 |
| | 85,143 | 85,143 | 91,893 | 91,893 |
| **Excess of Revenues over Expenditures** | - | - | 47 | 47 |
| **Fund Balances - beginning of year** | 172,505 | 172,505 | 172,505 | 172,505 |
| **Fund Balances - end of year** | $ 172,505 | $ 172,505 | $ 172,552 | $ 172,552 |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**
**BUDGET AND ACTUAL - INDIGENT CARE FUND (UNAUDITED)**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Budgeted Amounts | | Actual Amounts | Actual Amounts |
| | Original | Final | Budgetary Basis | GAAP Basis |
| **Revenues** | | | | |
| Taxes | $ 46,924 | $ 46,924 | $ 45,973 | $ 45,973 |
| Miscellaneous | - | - | 2 | 2 |
| | 46,924 | 46,924 | 45,975 | 45,975 |
| **Expenditures** | - | - | - | - |
| **Excess of Revenues over Expenditures** | 46,924 | 46,924 | 45,975 | 45,975 |
| **Other Financing Sources (Uses)** | | | | |
| Transfers in | | | 900 | 900 |
| Transfers out | - | - | (47,079) | (47,079) |
| **Net Changes in Fund Balances** | 46,924 | 46,924 | (204) | (204) |
| **Fund Balances - beginning of year** | 9,201 | 9,201 | 9,201 | 9,201 |
| **Fund Balances - end of year** | $ 56,125 | $ 56,125 | $ 8,997 | $ 8,997 |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -**
**BUDGET AND ACTUAL - BRIDGE AND PUBLIC BUILDING FUND (UNAUDITED)**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**

| | (In Thousands) | | | |
|---|---|---|---|---|
| | Budgeted Amounts | | Actual Amounts | Actual Amounts |
| | Original | Final | Budgetary Basis | GAAP Basis |
| **Revenues** | | | | |
| Taxes | $ 40,554 | $ 40,554 | $ 40,452 | $ 40,452 |
| Intergovernmental | 700 | 700 | 762 | 762 |
| Interest and investment income | - | - | 92 | 92 |
| | 41,254 | 41,254 | 41,306 | 41,306 |
| **Expenditures** | - | - | - | - |
| **Excess of Revenues over Expenditures** | 41,254 | 41,254 | 41,306 | 41,306 |
| **Other Financing Uses** | | | | |
| Transfers out | - | - | (41,306) | (41,306) |
| | - | - | (41,306) | (41,306) |
| **Net Changes in Fund Balances** | 41,254 | 41,254 | - | - |
| **Fund Balances - beginning of year** | - | - | - | - |
| **Fund Balances - end of year** | $ 41,254 | $ 41,254 | $ - | $ - |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**SCHEDULE OF FUNDING PROGRESS -**
**DEFINED BENEFIT PENSION PLAN AND OTHER**
**POSTEMPLOYMENT BENEFITS PLAN**
**(UNAUDITED)**
**SEPTEMBER 30, 2013**

The schedule of funding progress presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability for benefits. The actuarial information presented is determined by an actuarial valuation and is the amount that results from applying various assumptions with regard to termination, disability, mortality and the time value of money to the accumulated plan benefits.

## Schedule of Funding Progress for Defined Benefit Pension Plan

(In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Entry Age (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL As a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 10/01/13 | $ 955,105 | $ 929,234 | $ (25,871) | 102.78% | $ 107,002 | (24.2%) |
| 10/01/12 | 931,093 | 913,822 | (17,271) | 101.89% | 118,896 | (14.5%) |
| 10/01/11 | 949,368 | 899,516 | (49,852) | 105.54% | 138,971 | (35.9%) |

## Schedule of Funding Progress for Other Postemployment Benefits Plan

(In Thousands)

| Actuarial Valuation Date | Actuarial Value of Assets (a) | Actuarial Accrued Liability (AAL) Projected Unit Credit (b) | Unfunded AAL (UAAL) (b-a) | Funded Ratio (a/b) | Covered Payroll (c) | UAAL As a Percentage of Covered Payroll [(b-a)/c] |
|---|---|---|---|---|---|---|
| 09/30/13 | $ - | $ 64,638 | $ 64,638 | 0% | $ 107,002 | 60.4% |
| 09/30/11 | - | 80,163 | 80,163 | 0% | 138,971 | 57.7% |
| 09/30/10 | - | 90,809 | 90,809 | 0% | 152,923 | 59.4% |

See independent auditors' report.

# SUPPLEMENTARY INFORMATION

**JEFFERSON COUNTY COMMISSION**
**COMBINING BALANCE SHEET -**
**NONMAJOR GOVERNMENTAL FUNDS**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| ASSETS | Community Development Fund | Debt Service Fund | Capital Improvements Fund | Public Building Authority | Road Construction Fund | Home Grant Fund | Emergency Management Fund | Road Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|---|---|---|---|
| Cash and investments | $ 44 | $ 10,237 | $ 52,144 | $ 481 | $ 834 | $ - | $ 185 | $ 11,647 | $ 75,572 |
| Accounts receivable, net | - | - | 4 | - | - | - | 86 | 11 | 101 |
| Tax receivable, net, highway and roads | - | - | - | - | - | - | - | 16,037 | 16,037 |
| Due from (to) other governments | - | 2,074 | - | - | - | 18 | 125 | (6,905) | (4,688) |
| Loans receivable, net | 811 | - | - | - | - | 118 | - | - | 929 |
| Restricted assets | - | - | - | 13,078 | - | - | - | 1,806 | 14,884 |
| Advances due from (to) other funds | (238) | 17,626 | - | - | (824) | (16) | - | - | 16,548 |
| | $ 617 | $ 29,937 | $ 52,148 | $ 13,559 | $ 10 | $ 120 | $ 396 | $ 22,596 | $ 119,383 |
| **LIABILITIES AND FUND BALANCES** | | | | | | | | | |
| **Liabilities** | | | | | | | | | |
| Accounts payable | $ 371 | $ - | $ 257 | $ 21 | $ 10 | $ 5 | $ 30 | $ 611 | $ 1,305 |
| Deposits payable | - | - | - | - | - | - | - | 1,482 | 1,482 |
| Deferred/unearned revenue | 223 | - | - | - | - | 10 | - | 16,027 | 16,260 |
| Accrued wages and benefits | 23 | - | - | - | - | 2 | 13 | 28 | 66 |
| Accrued interest | - | 22,043 | - | 1,869 | - | - | - | - | 23,912 |
| Debt service costs | - | 7,894 | - | - | - | - | - | - | 7,894 |
| Retainage payable | - | - | 169 | - | - | - | - | 225 | 394 |
| Estimated liability for compensated absences | - | - | - | - | - | - | - | 268 | 268 |
| Estimated claims liability | - | - | - | - | - | - | - | 158 | 158 |
| **Total Liabilities** | 617 | 29,937 | 426 | 1,890 | 10 | 17 | 43 | 18,799 | 51,739 |
| **Fund Balances** | | | | | | | | | |
| Nonspendable | - | 17,626 | - | - | - | - | - | - | 17,626 |
| Restricted | - | 2,074 | - | 13,078 | - | 103 | - | 3,797 | 19,052 |
| Committed | 537 | - | - | - | - | 622 | - | - | 1,159 |
| Assigned | - | - | 51,722 | - | - | - | 353 | - | 52,075 |
| Unassigned | (537) | (19,700) | - | (1,409) | - | (622) | - | - | (22,268) |
| | - | - | 51,722 | 11,669 | - | 103 | 353 | 3,797 | 67,644 |
| | $ 617 | $ 29,937 | $ 52,148 | $ 13,559 | $ 10 | $ 120 | $ 396 | $ 22,596 | $ 119,383 |

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, 2013**
**(IN THOUSANDS)**

| | Community Development Fund | Debt Service Fund | Capital Improvements Fund | Public Building Authority | Road Construction Fund | Home Grant Fund | Emergency Management Fund | Road Fund | Total Nonmajor Governmental Funds |
|---|---|---|---|---|---|---|---|---|---|
| **Revenues** | | | | | | | | | |
| Taxes | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ 15,288 | $ 15,288 |
| License and permits | | | | | | | | 1,892 | 1,892 |
| Intergovernmental | 2,872 | 2,074 | - | - | 805 | 742 | 1,217 | 199 | 7,909 |
| Charges for services, net | - | - | - | - | - | - | 765 | - | 765 |
| Miscellaneous | 12 | - | 168 | 2,500 | (898) | - | 98 | 149 | 2,029 |
| Interest and investment income | 1 | 3 | 43 | 32 | 3 | 139 | 3 | 16 | 240 |
| | 2,885 | 2,077 | 211 | 2,532 | (90) | 881 | 2,083 | 17,544 | 28,123 |
| **Expenditures** | | | | | | | | | |
| Current: | | | | | | | | | |
| General government | 3,048 | - | 478 | 98 | - | 778 | - | 3 | 4,405 |
| Public safety | - | - | - | - | - | - | 1,673 | - | 1,673 |
| Highway and roads | - | - | - | - | - | - | - | 16,104 | 16,104 |
| Health and welfare | 20 | - | - | - | - | - | - | - | 20 |
| Capital outlay | - | - | 1,577 | - | 2,351 | - | - | 15 | 3,943 |
| Indirect expenses | - | - | - | - | - | - | 351 | - | 351 |
| Debt service: | | | | | | | | | |
| Principal retirement | - | - | - | 4,355 | - | - | - | - | 4,355 |
| Interest and fiscal charges | - | 10,017 | - | 3,865 | - | - | - | - | 13,882 |
| | 3,068 | 10,017 | 2,055 | 8,318 | 2,351 | 778 | 2,024 | 16,122 | 44,733 |
| **Excess (Deficiency) of Revenues over Expenditures** | (183) | (7,940) | (1,844) | (5,786) | (2,441) | 103 | 59 | 1,422 | (16,610) |
| **Other Financing Sources** | | | | | | | | | |
| Sale of capital assets | - | - | 604 | - | - | - | - | - | 604 |
| Transfers in | 44 | 4,770 | 5,403 | - | 834 | - | 147 | - | 11,198 |
| | 44 | 4,770 | 6,007 | - | 834 | - | 147 | - | 11,802 |
| **Net Changes in Fund Balances** | (139) | (3,170) | 4,163 | (5,786) | (1,607) | 103 | 206 | 1,422 | (4,808) |
| **Fund Balances - beginning of year** | 139 | 3,170 | 47,559 | 17,455 | 1,607 | - | 147 | 2,375 | 72,452 |
| **Fund Balances - end of year** | $ - | $ - | $ 51,722 | $ 11,669 | $ - | $ 103 | $ 353 | $ 3,797 | $ 67,644 |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**COMBINING STATEMENT OF NET POSITION -**
**NONMAJOR ENTERPRISE FUNDS**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| ASSETS | Landfill Operations Fund | Jefferson Rehabilitation and Health Center Fund | Jefferson County Economic and Industrial Development Authority | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| **Current Assets** | | | | |
| Cash and investments | $ 1,958 | $ 32 | $ 2,617 | $ 4,607 |
| Patient accounts receivable, net | - | 4 | - | 4 |
| Accounts receivable, net | 284 | - | 62 | 346 |
| Due to other governments | - | - | (1,300) | (1,300) |
| Inventories | 21 | - | - | 21 |
| **Total Current Assets** | 2,263 | 36 | 1,379 | 3,678 |
| **Noncurrent Assets** | | | | |
| Restricted assets | 283 | - | - | 283 |
| Advances due to other funds | (17,626) | - | (15,472) | (33,098) |
| Capital assets: | | | | |
| Depreciable assets, net | 21,455 | - | 3,691 | 25,146 |
| Nondepreciable assets | 7,907 | - | 12,557 | 20,464 |
| | 12,019 | - | 776 | 12,795 |
| | $ 14,282 | $ 36 | $ 2,155 | $ 16,473 |

See independent auditors' report.

| LIABILITIES AND NET POSITION | Landfill Operations Fund | Jefferson Rehabilitation and Health Center Fund | Jefferson County Economic and Industrial Development Authority | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| **Current Liabilities** | | | | |
| Accounts payable | $ - | $ 36 | $ 11 | $ 47 |
| **Total Current Liabilities** | - | 36 | 11 | 47 |
| **Noncurrent Liabilities** | | | | |
| Estimated liability for landfill closure and postclosure care costs | 10,985 | - | - | 10,985 |
| **Total Liabilities** | 10,985 | 36 | 11 | 11,032 |
| **Net Position** | | | | |
| Net investment in capital assets | 29,361 | - | (524) | 28,837 |
| Restricted for: | | | | |
| Closure and postclosure care | 283 | - | - | 283 |
| Unrestricted | (26,347) | - | 2,668 | (23,679) |
| | $ 3,297 | $ - | $ 2,144 | $ 5,441 |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION -**
**NONMAJOR ENTERPRISE FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | Landfill Operations Fund | Jefferson Rehabilitation and Health Center Fund | Jefferson County Economic and Industrial Development Authority | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| **Operating Revenues** | | | | |
| Charges for services, net | $ - | $ 1,300 | $ - | $ 1,300 |
| Other operating revenue | 1,120 | 13 | 73 | 1,206 |
| | 1,120 | 1,313 | 73 | 2,506 |
| **Operating Expenses** | | | | |
| Salaries | - | 1,910 | 236 | 2,146 |
| Employee benefits and payroll taxes | - | 715 | 18 | 733 |
| Materials and supplies | - | 323 | - | 323 |
| Utilities | - | 571 | 24 | 595 |
| Outside services | 33 | 363 | 125 | 521 |
| Office expenses | - | 33 | 111 | 144 |
| Depreciation | 1,831 | 242 | 296 | 2,369 |
| Closure and postclosure care | 2,772 | - | - | 2,772 |
| Indirect expenses | 12 | - | - | 12 |
| Miscellaneous | - | 717 | 7 | 724 |
| | 4,648 | 4,874 | 817 | 10,339 |
| **Operating Loss** | (3,528) | (3,561) | (744) | (7,833) |
| **Nonoperating Revenues (Expenses)** | | | | |
| Interest expense, net | (898) | - | (87) | (985) |
| Interest revenue | - | - | 6 | 6 |
| Amortization of warrant related costs | - | - | (3) | (3) |
| Gain on sale of certificates of need | - | 8,335 | - | 8,335 |
| Gain on sale or retirement of capital assets | - | 629 | - | 629 |
| | (898) | 8,964 | (84) | 7,982 |
| **Operating Transfers** | | | | |
| Transfers out | (826) | (5,403) | - | (6,229) |
| **Change in Net Position** | (5,252) | - | (828) | (6,080) |
| **Net Position - beginning of year** | 8,549 | - | 2,972 | 11,521 |
| **Net Position - end of year** | $ 3,297 | $ - | $ 2,144 | $ 5,441 |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**COMBINING STATEMENT OF CASH FLOWS -**
**NONMAJOR ENTERPRISE FUNDS**
**FOR THE YEAR ENDED SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | Landfill Operations Fund | Jefferson Rehabilitation and Health Center Fund | Jefferson County Economic and Industrial Development Authority | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| **Cash Flows from Operating Activities** | | | | |
| Cash received from services | $ - | $ 1,830 | $ 73 | $ 1,903 |
| Cash payments to employees | - | (3,077) | (254) | (3,331) |
| Cash payments for goods and services | (64) | (1,488) | (267) | (1,819) |
| Other receipts and payments, net | (275) | (3,154) | 74 | (3,355) |
| **Net Cash Used by Operating Activities** | (339) | (5,889) | (374) | (6,602) |
| **Cash Flows from Noncapital Financing Activities** | | | | |
| Operating transfers out | (826) | (5,403) | - | (6,229) |
| **Net Cash Used by Noncapital Financing Activities** | (826) | (5,403) | - | (6,229) |
| **Cash Flows from Capital and Related Financing Activities** | | | | |
| Acquisition of capital assets | - | - | (4) | (4) |
| Sale of capital assets and certificates of need | - | 11,287 | - | 11,287 |
| Interest paid | (897) | - | (92) | (989) |
| Principal payments on warrants | - | - | (415) | (415) |
| **Net Cash Provided (Used) by Capital and Related Financing Activities** | (897) | 11,287 | (511) | 9,879 |
| **Cash Flows from Investing Activities** | | | | |
| Interest received | - | - | 6 | 6 |
| **Net Cash Provided by Investing Activities** | - | - | 6 | 6 |
| **Change in Cash and Investments** | (2,062) | (5) | (879) | (2,946) |
| **Cash and Investments - beginning of year** | 4,303 | 37 | 3,496 | 7,836 |
| **Cash and Investments - end of year** | $ 2,241 | $ 32 | $ 2,617 | $ 4,890 |
| **Displayed As** | | | | |
| Cash and investments | $ 1,958 | $ 32 | $ 2,617 | $ 4,607 |
| Restricted assets - noncurrent cash and investments | 283 | - | - | 283 |
| | $ 2,241 | $ 32 | $ 2,617 | $ 4,890 |

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2013
(IN THOUSANDS)
(Continued)

| | Landfill Operations Fund | Jefferson Rehabilitation and Health Center Fund | Jefferson County Economic and Industrial Development Authority | Total Nonmajor Enterprise Funds |
|---|---|---|---|---|
| **Reconciliation of Operating Loss to Net Cash Used by Operating Activities** | | | | |
| Operating loss | $ (3,528) | $ (3,561) | $ (744) | $ (7,833) |
| Adjustments to reconcile operating loss to net cash used by operating activities: | | | | |
| Depreciation expense | 1,831 | 242 | 296 | 2,369 |
| Provision for bad debts | - | (67) | - | (67) |
| Change in patient accounts receivable | - | 597 | - | 597 |
| Change in accounts receivable | (65) | - | - | (65) |
| Change in inventories | (19) | - | - | (19) |
| Change in advances due to other funds | 826 | (2,276) | 81 | (1,369) |
| Change in accounts payable | - | (198) | (7) | (205) |
| Change in accrued wages and benefits | - | (46) | - | (46) |
| Change in estimated claims liability | - | (174) | - | (174) |
| Change in estimated liability for compensated absences | - | (179) | - | (179) |
| Change in estimated liability for landfill closure and postclosure care costs | 616 | - | - | 616 |
| Change in estimated liability for other postemployment benefits | - | (227) | - | (227) |
| | 3,189 | (2,328) | 370 | 1,231 |
| **Net Cash Used by Operating Activities** | $ (339) | $ (5,889) | $ (374) | $ (6,602) |

See independent auditors' report.

**JEFFERSON COUNTY COMMISSION**
**STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -**
**AGENCY FUND**
**SEPTEMBER 30, 2013**
**(IN THOUSANDS)**

| | Balance October 1, 2012 | Additions | Deductions | Balance September 30, 2013 |
|---|---|---|---|---|
| **City of Birmingham Revolving Loan Fund** | | | | |
| **Assets** | | | | |
| Cash and investments | $ 887 | $ 47 | $ - | $ 934 |
| Loans receivable, net | 166 | - | (47) | 119 |
| | $ 1,053 | $ 47 | $ (47) | $ 1,053 |
| **Liabilities** | | | | |
| Due to other governments | $ 1,053 | $ - | $ - | $ 1,053 |

See independent auditors' report.

# ADDITIONAL INFORMATION

**JEFFERSON COUNTY COMMISSION**
**COMMISSION MEMBERS AND ADMINISTRATIVE PERSONNEL**
**(UNAUDITED)**
**SEPTEMBER 30, 2013**

| **Commission Members As of August 28, 2014** | | | **Term Expires** |
|---|---|---|---|
| Hon. David Carrington | President | Suite 230<br>Jefferson County Courthouse<br>Birmingham, AL 35263 | 2014 |
| Hon. George T. Bowman | Member | Suite 240<br>Jefferson County Courthouse<br>Birmingham, AL 35263 | 2014 |
| Hon. Sandra Little Brown | Member | Suite 250<br>Jefferson County Courthouse<br>Birmingham, AL 35263 | 2014 |
| Hon. T. Joe Knight | Member | Suite 220<br>Jefferson County Courthouse<br>Birmingham, AL 35263 | 2014 |
| Hon. James A. Stephens | Member | Suite 210<br>Jefferson County Courthouse<br>Birmingham, AL 35263 | 2014 |

| **Administrative Personnel As of August 28, 2014** | | |
|---|---|---|
| George J. Tablack | Chief Financial Officer | Suite 810<br>Jefferson County Courthouse<br>Birmingham, AL 35263 |
| Carol Sue Nelson | County Attorney | Suite 280<br>Jefferson County Courthouse<br>Birmingham, AL 35263 |