JEFFERSON COUNTY COMMISSION

AUDITED FINANCIAL STATEMENTS

SEPTEMBER 30, 2012

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INDEPENDENT AUDITORS' REPORT

October 7, 2013

To the Commissioners
Jefferson County Commission
Birmingham, Alabama

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Jefferson County Commission (the Commission) as of and for the year ended September 30, 2012, which collectively comprise the Commission's basic financial statements as listed in the contents. These financial statements are the responsibility of the Commission's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Jefferson County Economic and Industrial Development Authority (the Development Authority), a blended component unit, which represent less than one percent of the assets, net assets and revenues of the business-type activities. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinion, insofar as it relates to the amounts included for the Development Authority, is based solely on the report of the other auditors.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Commission's internal control over financial reporting. Accordingly, we express no such opinion. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinions.

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

In our opinion, based on our audit and the report of the other auditors, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to obtain the valuation of certain donated capital assets, as discussed in the preceding paragraph, the financial statements referred to in the first paragraph present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of the Jefferson County Commission as of September 30, 2012, and the respective changes in financial position and cash flows, where applicable, as of and for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying financial statements have been prepared assuming that the Commission will continue as a going concern. As discussed in Notes J, K and V to the financial statements, during the year ended September 30, 2009, and subsequent years, the Commission received Notices and Events of Default from indenture trustees and certain banks for certain debt obligations and has been unable to meet its accelerated debt service obligations as they become due. In addition, 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. While the terms of the outstanding warrants payable may ultimately be restructured with the creditors through the Bankruptcy Case, under the current Events of Default and potential cross-defaults, these obligations would be due and payable on an accelerated basis but for the Commission's Bankruptcy Case. 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 without the restructuring of debt or other significant reorganization activities. 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 might result from the outcome of this uncertainty.

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. Currently, representatives of the Commission are negotiating with creditors to restructure the Commission's outstanding obligations through a Chapter 9 plan of adjustment of debts. As a result, the Commission has filed with the Bankruptcy Court its *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (dated July 19, 2013)* (the Plan of Adjustment). The effectiveness of the Plan of Adjustment is subject to several conditions, including its confirmation and approval by the Bankruptcy Court. The Bankruptcy Court has scheduled a hearing to begin on November 12, 2013, at which time the Bankruptcy Court is expected to hear and consider whether to confirm the Plan of Adjustment in accordance with the provisions of Chapter 9. It is possible that the Plan of Adjustment may not be confirmed or, if confirmed, that certain conditions to the Plan of Adjustment's effectiveness may not be satisfied. It is also possible that the Plan of Adjustment may be amended, revised or withdrawn by the Commission prior to the November 12, 2013, confirmation hearing. Therefore, these financial statements do not include any adjustments or reclassifications that might result from the confirmation or consummation of the Plan of Adjustment or that might otherwise result from the Bankruptcy Case. See Note W for further discussion of the Plan of Adjustment.

To the Commissioners
Jefferson County Commission
October 7, 2013

Accounting principles generally accepted in the United States of America for state and local governments require that the budgetary comparison information on pages 142 through 145 and the schedule of funding progress - defined benefit pension plan and other postemployment benefits plan on page 146 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board (GASB) who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

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

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

Warren Averett, LLC

Birmingham, Alabama

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012
(IN THOUSANDS)

ASSETS	Governmental Activities	Business-Type Activities	Total
Current Assets			
Cash and investments	$ 140,707	$ 18,792	$ 159,499
Patient accounts receivable, net	-	3,966	3,966
Estimated third-party payor settlements	-	191	191
Accounts receivable, net	8,794	19,113	27,907
Loans receivable, net	1,831	-	1,831
Taxes receivable, net	132,006	5,064	137,070
Other receivables	-	4,401	4,401
Due from (to) other governments	14,944	518	15,462
Inventories	-	981	981
Prepaid expenses and other current assets	416	33	449
Deferred charges - issuance costs	11,126	43,667	54,793
Restricted assets - current	178,004	173,523	351,527
Total Current Assets	487,828	270,249	758,077
Noncurrent Assets			
Advances due from (to) other funds	41,387	(41,387)	-
Loans receivable, net	20,276	-	20,276
Restricted assets	3,887	4,708	8,595
Assets internally designated for capital improvements or redemption of warrants	-	46,726	46,726
Capital assets:			
Depreciable assets, net	285,039	2,710,752	2,995,791
Nondepreciable assets	33,221	64,497	97,718
	383,810	2,785,296	3,169,106
	$ 871,638	$ 3,055,545	$ 3,927,183

See notes to financial statements.

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Current Liabilities			
Accounts payable	$ 27,501	$ 16,175	$ 43,676
Deposits payable	1,442	-	1,442
Deferred/unearned revenue	119,366	5,406	124,772
Accrued wages and benefits	3,496	1,156	4,652
Accrued interest	20,548	168,802	189,350
Debt service costs	7,894	104,726	112,620
Retainage payable	422	1,174	1,596
Noncurrent liabilities - portion due or payable within one year:			
Capital lease obligations	254	80	334
Estimated liability for compensated absences	6,395	2,524	8,919
Estimated claims liability	1,695	1,093	2,788
Warrants payable	1,060,450	3,107,933	4,168,383
Add: Unamortized premiums	29,977	6,109	36,086
Less: Deferred loss on refunding	-	(258,324)	(258,324)
	1,090,427	2,855,718	3,946,145
Total Current Liabilities	1,279,440	3,156,854	4,436,294
Noncurrent Liabilities			
Capital lease obligations	598	97	695
Estimated liability for landfill closure and postclosure care costs	-	10,369	10,369
Estimated liability for other postemployment benefits	5,355	3,008	8,363
Estimated liability for compensated absences	9,310	3,367	12,677
Estimated litigation liability	12,058	-	12,058
Estimated claims liability	3,003	2,034	5,037
Warrants payable	-	-	-
Total Liabilities	1,309,764	3,175,729	4,485,493
Net Assets (Deficit)			
Investment in capital assets, net of related debt	275,379	53,866	329,245
Restricted for:			
Debt service or capital improvements	-	32,218	32,218
Debt service	137,064	34,186	171,250
Closure and postclosure care	-	2,440	2,440
Other purposes	97,835	1,789	99,624
Unrestricted	(948,404)	(244,683)	(1,193,087)
	$ (438,126)	$ (120,184)	$ (558,310)

JEFFERSON COUNTY COMMISSION
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS)

			Program Revenues		Net (Expenses) Revenues and Changes in Net Assets 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	$ 127,804	$ (7,071)	$ 28,021	$ 12,255	$ (80,457)	$ -	$ (80,457)
Public safety	61,678	135	4,458	1,107	(56,248)	-	(56,248)
Highways and roads	20,581	-	167	1,412	(19,002)	-	(19,002)
Health and welfare	7	-	-	1,204	1,197	-	1,197
Environmental services	-	-	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-	-
Education - other	1	-	-	-	(1)	-	(1)
Interest and fiscal charges	48,662	-	-	-	(48,662)	-	(48,662)
Total Governmental Activities	258,733	(6,936)	32,646	15,978	(203,173)	-	(203,173)
Business-Type Activities:							
Cooper Green Hospital	85,712	6,926	34,711	868	-	(57,059)	(57,059)
Economic and Industrial Development Authority	894	-	-	-	-	(894)	(894)
Nursing Home operations	7,303	-	3,796	-	-	(3,507)	(3,507)
Landfill operations	2,174	10	-	-	-	(2,184)	(2,184)
Sanitary operations	315,741	-	153,011	-	-	(162,730)	(162,730)
Total Business-Type Activities	411,824	6,936	191,518	868	-	(226,374)	(226,374)
Total Primary Government	$ 670,557	$ -	$ 224,164	$ 16,846	(203,173)	(226,374)	(429,547)
General Revenues							
Taxes:							
Property taxes					101,923	5,841	107,764
Sales tax					173,792	-	173,792
Other taxes					33,183	-	33,183
Licenses and permits					7,610	-	7,610
Unrestricted investment earnings					1,391	1,642	3,033
Miscellaneous					15,436	35,578	51,014
Transfers					(52,140)	52,140	-
Total General Revenues and Transfers					281,195	95,201	376,396
Change in Net Assets					78,022	(131,173)	(53,151)
Net Assets (Deficit) - beginning of year, as previously reported					(511,396)	41,080	(470,316)
Prior Period Adjustments					(4,752)	(30,091)	(34,843)
Net Assets (Deficit) - beginning of year, as restated					(516,148)	10,989	(505,159)
Net Assets (Deficit) - end of year					$ (438,126)	$ (120,184)	$ (558,310)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
BALANCE SHEET -
GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012
(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	$ 87,824	$ -	$ 84	$ 1,353	$ 51,446	$ 140,707
Accounts receivable, net	8,726	-	-	-	68	8,794
Taxes receivable, net	59,505	14,970	6,875	35,780	-	117,130
Taxes receivable, net, highways and roads	14,876	-	-	-	-	14,876
Due from other governments	5,293	-	549	423	5,494	11,759
Loans receivable, net	837	-	-	-	994	1,831
Prepaid expenses and other current assets	416	-	-	-	-	416
Restricted assets	2,192	158,367	1,695	-	19,637	181,891
Advances due from (to) other funds	24,747	(21)	-	-	16,661	41,387
	$ 204,416	$ 173,316	$ 9,203	$ 37,556	$ 94,300	$ 518,791
LIABILITIES AND FUND BALANCES						
Liabilities						
Accounts payable	$ 24,771	$ -	$ -	$ -	$ 2,730	$ 27,501
Deposits payable	1,442	-	-	-	-	1,442
Deferred/unearned revenue	78,237	-	-	37,556	388	116,181
Accrued wages and benefits	3,463	-	-	-	33	3,496
Accrued interest	-	811	-	-	13,103	13,914
Debt service costs	-	-	-	-	7,894	7,894
Retainage payable	347	-	-	-	75	422
Estimated liability for compensated absences	6,395	-	-	-	-	6,395
Estimated claims liability	1,695	-	-	-	-	1,695
Total Liabilities	116,350	811	-	37,556	24,223	178,940
Fund Balances (Deficit)						
Nonspendable	16,646	-	-	-	16,800	33,446
Restricted	2,192	172,505	9,203	-	25,165	209,065
Committed	6,324	4	-	-	15,468	21,796
Assigned	33,861	-	-	-	46,501	80,362
Unassigned	29,043	(4)	-	-	(33,857)	(4,818)
	88,066	172,505	9,203	-	70,077	339,851
	$ 204,416	$ 173,316	$ 9,203	$ 37,556	$ 94,300	$ 518,791

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET ASSETS
SEPTEMBER 30, 2012
(IN THOUSANDS)

Total Fund Balances - Governmental Funds		$ 339,851
Amounts reported for governmental activities in the statement of net assets are different due to the following:		
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. These assets were added as net capital assets.		318,260
Receivables due from other governments related to grant reimbursements not received within one year are deferred ($3,185,000)		-
Loans receivable are not available to pay for current-period expenditures and, therefore, are deferred in the funds.		20,276
Deferred amounts related to premiums on long-term liabilities are not reported in the funds.		(29,977)
Deferred amounts related to discounts and bond issuance cost on long-term liabilities are not reported in the funds.		11,126
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	(1,060,450)	
Capital lease obligations	(852)	
Accrued interest	(6,634)	
Estimated liability for other postemployment benefits	(5,355)	
Estimated liability for compensated absences	(9,310)	
Estimated litigation liability	(12,058)	
Estimated claims liability	(3,003)	
Total long-term liabilities		(1,097,662)
Total Net Assets (Deficit) - Governmental Activities		$ (438,126)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS)

	General Fund	Limited Obligation School Fund	Indigent Care Fund	Bridge and Public Building Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenues						
Taxes	$ 97,758	$ 93,836	$ 46,020	$ 41,916	$ -	$ 279,530
Licenses and permits	7,610	-	-	-	-	7,610
Intergovernmental	31,606	-	-	842	12,898	45,346
Charges for services, net	31,881	-	-	-	765	32,646
Miscellaneous	4,492	-	7	-	929	5,428
Interest and investment income	242	97	2	58	992	1,391
	173,589	93,933	46,029	42,816	15,584	371,951
Expenditures						
Current:						
General government	104,372	153	-	-	5,821	110,346
Public safety	59,224	-	-	-	2,390	61,614
Highway and roads	14,792	-	-	-	-	14,792
Health and welfare	-	-	-	-	7	7
Education - other	1	-	-	-	-	1
Capital outlay	306	-	-	-	6,214	6,520
Indirect expenses	(7,071)	-	-	-	135	(6,936)
Debt service:						
Principal retirement	54	32,515	-	-	4,130	36,699
Interest and fiscal charges	38	39,068	-	-	14,577	53,683
	171,716	71,736	-	-	33,274	276,726
Excess (Deficiency) of Revenues over Expenditures	1,873	22,197	46,029	42,816	(17,690)	95,225
Other Financing Sources (Uses)						
Sale of capital assets	400	-	-	-	1,786	2,186
Legal and insurance settlements	-	-	-	-	8,475	8,475
Transfers in	15,456	-	-	-	31,479	46,935
Transfers out	(9,042)	-	(46,262)	(42,816)	-	(98,120)
	6,814	-	(46,262)	(42,816)	41,740	(40,524)
Net Changes in Fund Balances	8,687	22,197	(233)	-	24,050	54,701
Fund Balances - beginning of year, as previously reported	79,379	150,308	9,436	-	50,779	289,902
Prior Period Adjustment	-	-	-	-	(4,752)	(4,752)
Fund Balances - beginning of year, as restated	79,379	150,308	9,436	-	46,027	285,150
Fund Balances - end of year	$ 88,066	$ 172,505	$ 9,203	$ -	$ 70,077	$ 339,851

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS)

Net Changes in Fund Balances - Governmental Funds		$ 54,701
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 ($15,089,000) exceeded capital outlays ($6,520,000) in the current period.		(8,569)
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		(1,294)
Bond proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the statement of net assets. Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the statement of net assets. This is the amount by which repayments of principal exceeded amortization of debt-related items:		
Amortization of bond premiums	2,457	
Amortization of bond issuance costs	(844)	
Arbitrage rebates	3,040	
Cancellation of capital lease obligations	100	
Repayments of principal - capital lease obligations	54	
Repayments of principal - warrants payable	36,645	41,452
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	368	
Increase in noncurrent portion of other postemployment benefits	(1,883)	
Decrease in noncurrent portion of compensated absences	733	
Increase in noncurrent portion of estimated litigation liability	(7,058)	
Increase in noncurrent portion of claims liability	(15)	(7,855)
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:		
Loss on transfers of capital assets	(955)	
Gain on contributions of capital assets	639	
Net book value of disposed capital assets	(97)	(413)
Change in Net Assets - Governmental Activities		$ 78,022

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF NET ASSETS -
PROPRIETARY FUNDS
SEPTEMBER 30, 2012
(IN THOUSANDS)

ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Current Assets				
Cash and investments	$ 6,404	$ 7,414	$ 4,974	$ 18,792
Patient accounts receivable, net	3,432	-	534	3,966
Accounts receivable, net	-	18,833	280	19,113
Other receivables	4,401	-	-	4,401
Estimated third-party payor settlements	191	-	-	191
Taxes receivable, net	-	5,064	-	5,064
Due from (to) other governments	-	1,818	(1,300)	518
Inventories	979	-	2	981
Prepaid expenses	33	-	-	33
Deferred charges - issuance costs	-	43,666	1	43,667
Restricted assets - current	-	173,523	-	173,523
Total Current Assets	15,440	250,318	4,491	270,249
Noncurrent Assets				
Restricted assets	1,789	56	2,863	4,708
Assets internally designated for capital improvements or redemption of warrants	-	46,726	-	46,726
Advances due from (to) other funds	(6,926)	-	(34,461)	(41,387)
Capital assets:				
Depreciable assets, net	34,972	2,645,951	29,829	2,710,752
Nondepreciable assets	1,078	42,955	20,464	64,497
	30,913	2,735,688	18,695	2,785,296
	$ 46,353	$ 2,986,006	$ 23,186	$ 3,055,545

See notes to financial statements.

LIABILITIES AND NET ASSETS	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Current Liabilities				
Accounts payable	$ 7,797	$ 8,120	$ 258	$ 16,175
Accrued wages and benefits	721	382	53	1,156
Accrued interest	-	168,801	1	168,802
Debt service costs	-	104,726	-	104,726
Retainage payable	-	1,174	-	1,174
Deferred/unearned revenue	-	5,406	-	5,406
Estimated claims liability	577	450	66	1,093
Estimated liability for compensated absences	1,296	1,143	85	2,524
Current portion of capital lease obligations	80	-	-	80
Warrants payable	-	3,107,518	415	3,107,933
Add: Unamortized premiums (discounts)	-	6,110	(1)	6,109
Less: Deferred loss on refunding	-	(258,322)	(2)	(258,324)
	-	2,855,306	412	2,855,718
Total Current Liabilities	10,471	3,145,508	875	3,156,854
Noncurrent Liabilities				
Warrants payable	-	-	-	-
Capital lease obligations	97	-	-	97
Estimated liability for landfill closure and postclosure care costs	-	-	10,369	10,369
Estimated claims liability	1,046	880	108	2,034
Estimated liability for other postemployment benefits	1,693	1,096	219	3,008
Estimated liability for compensated absences	1,553	1,720	94	3,367
Total Liabilities	14,860	3,149,204	11,665	3,175,729
Net Assets (Deficit)				
Invested in capital assets, net of related debt	35,871	(15,192)	33,187	53,866
Restricted for:				
Debt service or capital improvements	-	32,218	-	32,218
Debt service	-	33,763	423	34,186
Closure and postclosure care	-	-	2,440	2,440
Other purposes	1,789	-	-	1,789
Unrestricted	(6,167)	(213,987)	(24,529)	(244,683)
	$ 31,493	$ (163,198)	$ 11,521	$ (120,184)

JEFFERSON COUNTY COMMISSION
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET ASSETS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Operating Revenues				
Taxes	$ -	$ 5,841	$ -	$ 5,841
Intergovernmental	-	104	-	104
Charges for services, net	25,433	152,907	3,796	182,136
Other operating revenue	9,278	678	1,359	11,315
	34,711	159,530	5,155	199,396
Operating Expenses				
Salaries	30,104	17,807	2,695	50,606
Employee benefits and payroll taxes	7,700	6,186	897	14,783
Materials and supplies	15,861	3,959	543	20,363
Utilities	1,713	8,142	796	10,651
Outside services	9,151	20,886	1,622	31,659
Services from other hospitals	6,128	-	-	6,128
Jefferson Clinic	11,112	-	-	11,112
Office expenses	792	930	158	1,880
Depreciation	2,379	132,336	2,530	137,245
Closure and postclosure care	-	-	85	85
Indirect expenses	6,926	-	10	6,936
Miscellaneous	759	141	844	1,744
	92,625	190,387	10,180	293,192
Operating Loss	(57,914)	(30,857)	(5,025)	(93,796)
Nonoperating Revenues (Expenses)				
Interest expense, net	(13)	(111,876)	(191)	(112,080)
Interest revenue	35	1,600	7	1,642
Grant income	868	-	-	868
Amortization of warrant related costs	-	(13,478)	(10)	(13,488)
Legal settlements	-	34,612	-	34,612
Gain (loss) on contribution, sale or retirement of capital assets	-	(1,140)	69	(1,071)
	890	(90,282)	(125)	(89,517)
Operating Transfers				
Transfers in	50,392	-	793	51,185
Capital contributions - transfer of capital assets	955	-	-	955
	51,347	-	793	52,140
Change in Net Assets	(5,677)	(121,139)	(4,357)	(131,173)
Net Assets (Deficit) - beginning of year, as previously reported	37,170	(11,968)	15,878	41,080
Prior Period Adjustment	-	(30,091)	-	(30,091)
Net Assets (Deficit) - beginning of year, as restated	37,170	(42,059)	15,878	10,989
Net Assets - end of year	$ 31,493	$ (163,198)	$ 11,521	$ (120,184)

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS)

	Cooper Green Hospital Fund	Sanitary Operations Fund	Nonmajor Enterprise Funds	Total
Cash Flows from Operating Activities				
Cash received from services	$ 28,756	$ 152,415	$ 4,298	$ 185,469
Cash payments to employees	(37,321)	(23,989)	(3,648)	(64,958)
Cash payments for goods and services	(52,376)	(33,347)	(3,551)	(89,274)
Other receipts and payments, net	14,243	(3,675)	2,998	13,566
Net Cash Provided (Used) by Operating Activities	(46,698)	91,404	97	44,803
Cash Flows from Noncapital Financing Activities				
Grant income	868	-	-	868
Legal settlements	-	34,612	-	34,612
Operating transfers in	50,392	-	793	51,185
Net Cash Provided by Noncapital Financing Activities	51,260	34,612	793	86,665
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	(602)	(26,827)	(16)	(27,445)
Repayment of capital lease obligations	(123)	-	-	(123)
Sale of capital assets	-	-	285	285
Interest paid	(13)	(108,864)	(192)	(109,069)
Principal payments on warrants	-	(28,460)	(1,435)	(29,895)
Net Cash Used by Capital and Related Financing Activities	(738)	(164,151)	(1,358)	(166,247)
Cash Flows from Investing Activities				
Interest received	35	1,600	7	1,642
Miscellaneous	(1)	-	2	1
Net Cash Provided by Investing Activities	34	1,600	9	1,643
Change in Cash and Investments	3,858	(36,535)	(459)	(33,136)
Cash and Investments - beginning of year	4,335	264,254	8,296	276,885
Cash and Investments - end of year	$ 8,193	$ 227,719	$ 7,837	$ 243,749
Displayed As				
Cash and investments	$ 6,404	$ 7,414	$ 4,974	$ 18,792
Restricted assets - current cash and investments	-	173,523	-	173,523
Restricted assets - noncurrent cash and investments	1,789	56	2,863	4,708
Assets internally designated for capital improvements or redemption of warrants - noncurrent cash	-	46,726	-	46,726
	$ 8,193	$ 227,719	$ 7,837	$ 243,749

JEFFERSON COUNTY COMMISSION
STATEMENT OF CASH FLOWS -
PROPRIETARY FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(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	$ (57,914)	$ (30,857)	$ (5,025)	$ (93,796)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	2,379	132,336	2,530	137,245
Provision for bad debts	12,501	591	492	13,584
Change in patient accounts receivable	(9,390)	-	(81)	(9,471)
Change in accounts receivable	-	(805)	(111)	(916)
Change in other receivables	(1,963)	-	-	(1,963)
Change in estimated third-party payor settlements	211	-	-	211
Change in taxes receivable, net	-	32	-	32
Change in due from (to) other governments	-	(278)	-	(278)
Change in inventories	319	-	3	322
Change in prepaid expenses	706	-	-	706
Change in advances due from (to) other funds	6,926	(10,628)	2,344	(1,358)
Change in accounts payable	(642)	713	(425)	(354)
Change in accrued wages and benefits	(11)	(14)	(13)	(38)
Change in retainage payable	-	222	-	222
Change in deferred/unearned revenue	-	138	-	138
Change in estimated claims liability	(314)	17	(105)	(402)
Change in estimated liability for compensated absences	(125)	(430)	(117)	(672)
Change in accrued arbitrage rebates	-	(63)	-	(63)
Change in estimated liability for landfill closure and postclosure care costs	-	-	532	532
Change in estimated liability for other postemployment benefits	619	430	73	1,122
	11,216	122,261	5,122	138,599
Net Cash Provided (Used) by Operating Activities	$ (46,698)	$ 91,404	$ 97	$ 44,803
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
(Loss) gain on sale or retirement of capital assets	$ -	$ (1,140)	$ 69	$ (1,071)
Transfers from capital assets to governmental fund	$ 955	$ -	$ -	$ 955
Noncash capital asset addition	$ -	$ 776	$ -	$ 776

See notes to financial statements.

JEFFERSON COUNTY COMMISSION
STATEMENT OF FIDUCIARY NET ASSETS -
AGENCY FUND
SEPTEMBER 30, 2012
(IN THOUSANDS)

ASSETS		Agency Fund
Current Assets		
Cash and investments	$	887
Loans receivable, net		166
	$	1,053
LIABILITIES		
Due to other governments	$	1,053

See notes to financial statements.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity

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

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

Government-Wide and Fund Financial Statements

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Government-Wide Financial Statements

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

The statement of activities presents a comparison between program revenues and direct expenses for each segment of the business-type activities of the Commission and for each function of the Commission's governmental activities. Program revenues include (a) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or program and (b) grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues, including all taxes, are presented as general revenues. Direct expenses are those that are specifically associated with a program or function and, therefore, are clearly identifiable to a particular function. During 2012, 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

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

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

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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.

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Assets, Liabilities and Net Assets/Fund Balances

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

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

Investments are reported at fair value, based on quoted market prices, except for money market investments, 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. 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	$ 14,279,000
Allowance accounts	10,313,000
Net patient receivables	$ 3,966,000

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Allowances for uncollectible accounts on accounts receivable totaled $19,821,000 and allowances on due from other governments totaled $3,376,000 at September 30, 2012.

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 $19,870,000 (net of an allowance of $6,931,000) at September 30, 2012.

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 $880,000 at September 30, 2012.

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, 2012, the balance of these loans receivable for the City of Birmingham totaled $166,000, which is presented in the statement of fiduciary net assets.

Other miscellaneous loans were issued by the Commission with varying maturities and interest rates. These loans totaled $1,357,000 (net of an allowance of $332,000) at September 30, 2012.

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

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

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

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Restricted Assets

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

Capital Assets

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

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

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

The Commission capitalizes interest cost incurred on funds used to construct property, equipment and infrastructure assets. Interest capitalization ceases when the construction project is substantially complete. The capitalized interest is recorded as part of the asset to which it relates and is amortized over the asset's estimated useful life. In accordance with authoritative accounting guidance, interest is not capitalized for construction projects of governmental funds. Net interest capitalized during fiscal year 2012 amounted to $497,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Capital assets are reviewed for impairment in accordance with the methodology prescribed in GASB Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries*. Asset impairment, as defined by this standard, is a significant, unexpected decline in the service utility of a capital asset and is not a function of the recoverability of the carrying amount of the asset. Service utility is the usable capacity of the asset that was expected to be used at the time of acquisition and is not related to the level of actual utilization, but the capacity for utilization. Indicators that the service utility of an asset has significantly declined include: (a) evidence of physical damage; (b) changes in legal or environmental circumstances; (c) technological development or evidence of obsolescence; (d) a change in the manner or expected duration of use of the asset; and (e) construction stoppage. The Commission has determined that no capital asset impairment exists at September 30, 2012.

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.

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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Warrants Payable

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

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

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

Derivative Instruments/Interest Rate Swap Agreements

The Commission entered into several interest rate swap agreements in prior years in relation to the warrant agreements. All such agreements were terminated prior to September 30, 2012. As a result, the estimated termination fees plus any related accrued interest (which represents the estimated fair value at the termination date) have been accrued and are included as a liability in the accompanying financial statements. See Note K for a discussion of the interest rate swap agreements.

Compensated Absences

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

<u>Vacation Leave</u>

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

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

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

Maximum limitations of accumulated compensatory time are as follows:

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

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

As of September 30, 2012, the liability for accrued vacation and compensatory leave included in the government-wide statement of net assets is approximately $13,664,000 of which $9,870,000 is reported in the governmental activities and $3,794,000 is reported in the business-type activities. Of this amount, an estimated $8,049,000 is payable within a year.

As of September 30, 2012, the liability for accrued sick leave included in the government-wide statement of net assets is approximately $7,932,000. Of this amount, $5,835,000 is reported in the governmental activities and $2,097,000 is reported in the business-type activities. Due and payable within one year of September 30, 2012, is approximately $870,000.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Legal Fees and Costs Associated with Bankruptcy Proceedings

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

Net Assets/Fund Balances

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

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

Fund balances are reported in the fund financial statements. 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.

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

- *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 2011 financial statements have been reclassified to conform to 2012 presentation. Such reclassifications had no material effect on the previously reported financial position or changes in fund balance.

Subsequent Events

Management has evaluated subsequent events and their potential effects on these financial statements through October 7, 2013, the date the financial statements were available to be issued.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

Budgets

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

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.

NOTE B - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - Continued

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

Deficit Fund Balances/Net Assets of Individual Funds
At September 30, 2012, the Sanitary Operations Fund had a deficit fund balance of $163,198,000.

NOTE C - RESTATEMENTS

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

	(In Thousands)		
	Governmental Activities	**Business-Type Activities**	**Total**
Net assets (deficit), September 30, 2011, as previously reported	$ (511,396)	$ 41,080	$ (470,316)
Defer grant reimbursements	(4,752)	-	(4,752)
Record additional accrued interest	-	(30,091)	(30,091)
Net assets (deficit), September 30, 2011, as restated	$ (516,148)	$ 10,989	$ (505,159)

The beginning net deficit of the Sanitary Operations Fund reported on the fund financial statements has been restated to correct a prior year error as listed in the table below:

	(In Thousands) **Sanitary Operations Fund**
Net deficit, September 30, 2011, as previously reported	$ (11,968)
Record additional accrued interest	(30,091)
Net deficit, September 30, 2011, as restated	$ (42,059)

The beginning fund balance of the nonmajor governmental funds reported on the fund financial statements has been restated to correct a prior year error as listed in the table below:

	(In Thousands) **Nonmajor Governmental Funds**
Fund balance, September 30, 2011, as previously reported	$ 50,779
Defer grant reimbursements	(4,752)
Fund balance, September 30, 2011, as restated	$ 46,027

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, 2012, 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	140,464	11,825	152,289
Cash and investments	143	6,961	7,104
Assets internally designated for capital improvements or redemption of warrants	-	46,726	46,726
Restricted assets held for:			
Closure and postclosure care	-	2,440	2,440
Retainage	347	55	402
Debt service	140,883	33,764	174,647
Capital improvements	37,121	109,973	147,094
Debt service or capital improvements	-	29,786	29,786
Other purposes	3,540	2,213	5,753
Total restricted assets	181,891	178,231	360,122
Total cash and investments	$ 322,598	$ 243,749	$ 566,347

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2012, the Commission had the following deposits and investments:

	(In Thousands)		
	Governmental Activities	Business-Type Activities	Total
Cash and cash equivalents	$ 314,592	$ 77,842	$ 392,434
Investments:			
U.S. Government obligations	7,625	57,512	65,137
Collateralized mortgage obligations	11	1,620	1,631
Mortgage-backed securities	23	3,493	3,516
Guaranteed investment contracts	-	814	814
Fixed income money market mutual funds	-	102,413	102,413
Total investments	7,659	165,852	173,511
Restricted assets held for retainage	347	55	402
	$ 322,598	$ 243,749	$ 566,347

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 $402,000, are included as part of restricted assets on the accompanying statement of net assets and are not included in investments discussed below. They are not covered by collateral agreements between financial institutions and the Commission, and the terms of collateralization agreements between the contractors and the financial institutions are not known at this time.

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

NOTE D - DEPOSITS AND INVESTMENTS - Continued

As of September 30, 2012, 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	$ 65,137	$ 20,944	$ 30,738	$ 13,455	$ -
Collateralized mortgage obligations	1,631	-	938	636	57
Mortgage-backed securities	3,516	-	1,149	738	1,629
Guaranteed investment contracts	814	814	-	-	-
Fixed income money market mutual funds	102,413	102,413	-	-	-
	$ 173,511	$ 124,171	$ 32,825	$ 14,829	$ 1,686

Interest Rate Risk

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

Investment Risk

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

Concentration of Credit Risk

The Commission's investment policy generally does not allow for an investment in any one issuer that is in excess of five percent of the total investments. There were no investments with a balance greater than five percent of total investments at September 30, 2012.

NOTE D - DEPOSITS AND INVESTMENTS - Continued

Custodial Credit Risk

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

State law requires that prerefunded public obligations, such as any bonds or other obligations of any state of the United States of America or of any agency, instrumentality or local governmental unit of any such state in which the Commission invests, be rated in the highest rating category of Standard & Poor’s Ratings Services (S&P) and Moody’s Investors Service, Inc. (Moody’s). As of September 30, 2012, 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 $173,511,000 in investments at September 30, 2012, $29,766,000 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, 2012

NOTE E - CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2012, was as follows:

Governmental Activities	Balance at October 1, 2011 (In Thousands)	Additions	Disposals	Transfers/ Reclassifications	Balance at September 30, 2012
Nondepreciable capital assets:					
Land	$ 20,450	$ -	$ -	$ -	$ 20,450
Construction in progress	18,926	3,246	-	(9,401)	12,771
	39,376	3,246	-	(9,401)	33,221
Depreciable capital assets:					
Buildings	396,258	(9)	-	7,700	403,949
Improvements other than land/buildings	164,197	639	-	110	164,946
Maintenance equipment	6,335	-	-	79	6,414
Motor vehicle (nonfleet)	16,698	-	(927)	-	15,771
Motor vehicle (fleet)	38,575	126	(1,644)	(1)	37,056
Equipment under capital lease	15,310	-	-	(1,463)	13,847
Miscellaneous equipment	40,013	3,157	(1,703)	2,166	43,633
Office furniture and fixtures	1,220	-	(6)	(1)	1,213
	678,606	3,913	(4,280)	8,590	686,829
Less accumulated depreciation for:					
Buildings	(197,733)	(6,410)	-	12	(204,131)
Improvements other than land/buildings	(81,710)	(6,365)	-	(25)	(88,100)
Maintenance equipment	(7,378)	(67)	-	(1)	(7,446)
Motor vehicle (nonfleet)	(15,498)	(313)	927	-	(14,884)
Motor vehicle (fleet)	(37,208)	(869)	1,638	-	(36,439)
Equipment under capital lease	(14,106)	-	-	260	(13,846)
Miscellaneous equipment	(36,184)	(1,010)	1,611	(389)	(35,972)
Office furniture and fixtures	(923)	(55)	7	(1)	(972)
	(390,740)	(15,089)	4,183	(144)	(401,790)
Total depreciable capital assets, net	287,866	(11,176)	(97)	8,446	285,039
Total capital assets, net	$ 327,242	$ (7,930)	$ (97)	$ (955)	$ 318,260

NOTE E - CAPITAL ASSETS - Continued

(In Thousands)

Business-Type Activities	Balance at October 1, 2011	Additions	Disposals/ Impairment	Transfers/ Reclassifications	Balance at September 30, 2012
Nondepreciable capital assets:					
Land	$ 43,364	$ 776	$ (207)	$ -	$ 43,933
Construction in progress	10,079	24,017	(9)	(13,523)	20,564
	53,443	24,793	(216)	(13,523)	64,497
Depreciable capital assets:					
Buildings	1,120,749	14	-	(1,417)	1,119,346
Improvements other than land/buildings	3,336,807	510	(3,862)	14,940	3,348,395
Maintenance equipment	6,005	19	-	955	6,979
Motor vehicle (nonfleet)	4,903	86	(181)	-	4,808
Motor vehicle (fleet)	14,368	1,196	(209)	-	15,355
Equipment under capital lease	2,478	-	-	-	2,478
Miscellaneous equipment	18,577	1,601	-	-	20,178
Office furniture and fixtures	8,096	2	-	-	8,098
	4,511,983	3,428	(4,252)	14,478	4,525,637
Less accumulated depreciation for:					
Buildings	(336,653)	(26,157)	-	917	(361,893)
Improvements other than land/buildings	(1,295,537)	(108,215)	1,947	(917)	(1,402,722)
Maintenance equipment	(5,836)	(87)	-	-	(5,923)
Motor vehicle (nonfleet)	(4,509)	(159)	181	-	(4,487)
Motor vehicle (fleet)	(11,541)	(979)	209	-	(12,311)
Equipment under capital lease	(2,013)	(134)	-	-	(2,147)
Miscellaneous equipment	(15,866)	(1,493)	-	-	(17,359)
Office furniture and fixtures	(8,022)	(21)	-	-	(8,043)
	(1,679,977)	(137,245)	2,337	-	(1,814,885)
Total depreciable capital assets, net	2,832,006	(133,817)	(1,915)	14,478	2,710,752
Total capital assets, net	$ 2,885,449	$ (109,024)	$ (2,131)	$ 955	$ 2,775,249

The net book value of landfill operations capital assets leased to a third party at September 30, 2012, is $31,194,000. See Note H for discussion of operating lease. A valuation of certain capital assets donated to the Commission in prior years related to sewer infrastructure of new subdivisions was not available as of the date of this report. These capital assets are not included in the accompanying financial statements.

NOTE E - CAPITAL ASSETS - Continued

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

		(In Thousands)
Governmental activities:		
General government	$	9,236
Public safety		64
Highways and roads		5,789
Total depreciation expense - governmental activities	$	15,089
Business-type activities:		
Cooper Green Mercy Hospital	$	2,379
Jefferson Rehabilitation and Health Center		378
Landfill Operations		1,861
Sanitary Operations		132,336
Industrial Development Authority		291
Total depreciation expense - business-type activities	$	137,245

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, 2012, 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	$	109,995	$	-	$	109,995
Ad valorem taxes - other		-		4,745		4,745
Grant-related reimbursements		7,786		-		7,786
Business privilege tax		2,246		-		2,246
Total deferred/unearned revenue	$	120,027	$	4,745	$	124,772

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, 2012, amounts paid by the Commission totaled $713,000 for governmental activities and $711,000 for business-type activities.

Future minimum lease payments due under operating lease agreements at September 30, 2012, are as follows:

	(In Thousands)		
Year Ending September 30,	**Facilities**	**Equipment**	**Total**
2013	$ 2	$ 1,002	$ 1,004
2014	2	-	2
2015	3	-	3
2016	3	-	3
2017	3	-	3
2018-2022	12	-	12
	$ 25	$ 1,002	$ 1,027

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.

NOTE G - LEASE OBLIGATIONS - Continued

The future minimum lease obligations and the net present value of these minimum lease payments as of September 30, 2012, are as follows:

	(In Thousands)	
Year Ending September 30,	**Governmental Activities**	**Business-Type Activities**
2013	$ 297	$ 90
2014	255	90
2015	255	11
2016	127	-
Total minimum lease payments	934	191
Less amount representing interest	82	14
Present value of minimum lease payments	$ 852	$ 177

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, 2012:

2013	$ 918,000
2014	918,000
2015	918,000
2016	918,000
2017	918,000
Thereafter	44,293,500
	$ 48,883,500

Future minimum rental payments to be received do not include contingent rentals that may be received under the lease because of use in excess of specified amounts. Total rental income during 2012 of $1,259,000 is presented as other operating revenue in the statement of revenues, expenses and changes in net assets.

NOTE I - LANDFILL CLOSURE AND POSTCLOSURE CARE COSTS

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

The recorded liability for landfill closure and postclosure care costs is $10,369,000 as of September 30, 2012. This estimate was based on 100-percent usage (filled) of the Jefferson County Landfill Number 1, zero-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 (not including Landfill Number 1, Sub Cell 2-1) and the estimated remaining useful life of the landfill at September 30, 2012, are $117,000 and 3.08 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 $2,440,000 as of September 30, 2012, and are presented as noncurrent restricted assets on the accompanying statement of net assets under business-type activities. In accordance with Alabama Department of Environmental Management (ADEM) regulations, the Commission is required to provide financial assurance for closure and postclosure care costs annually. At September 30, 2012, the Commission was not in compliance with the ADEM requirement related to financial assurance. In February 2013, the Commission rectified its noncompliance with ADEM requirements by establishing a joint trust fund with Santek.

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, 2012. However, the actual cost of closure and postclosure care may be higher due to inflation, changes in technology or changes in landfill laws and regulations.

NOTE J - WARRANTS PAYABLE

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

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

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

NOTE J - WARRANTS PAYABLE - Continued

GOVERNMENTAL ACTIVITIES

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

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

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

The Limited Obligation School Warrants were subject to extraordinary mandatory redemption under the Trust Indenture, which required the Commission to make certain certifications regarding the warrants on or before October 20, 2006. No grants were made to any school board until the warrants were no longer subject to extraordinary mandatory redemption, which occurred during fiscal 2007. There were no grants to the school boards expended during fiscal 2012, 2011, 2010 or 2009.

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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

Statement of Cash Flows
For statement of cash 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.

Subsequent Events
See Note V - Subsequent Events, regarding discussion of events subsequent to year end that may impact the warrants payable.

The Commission filed Chapter 9 Bankruptcy in November 2011 (discussed below). See Note W - Bankruptcy and Proposed Restructuring for the proposed restructuring terms and the impact on the warrants held by the Commission.

NOTE J - WARRANTS PAYABLE - Continued

Warrants payable consist of the following at September 30, 2012 (in thousands):

Business-Type Activities:	
Sewer Revenue Refunding Warrants, Series 1997-A, with interest paid semiannually at fixed rates ranging from 5.375% to 5.650% and annual principal payments 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, 2012) 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 3.51% at September 30, 2012) with accelerated principal payments of $436,900 (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 2.46% at September 30, 2012) 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 0.56% at September 30, 2012) and annual principal payments through 2042	1,040,600
	3,107,518
Governmental Activities:	
General Obligation Warrants, Series 2001-B, with interest paid monthly at variable weekly rates (average rate of 5.28% at September 30, 2012) with accelerated principal payments (all currently due)	105,000

NOTE J - WARRANTS PAYABLE - Continued

General Obligation Capital Improvement and Refunding Warrants, Series 2003-A, with interest paid semiannually at fixed rates ranging from 3.40% 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	507,635
Limited Obligation School Warrants, Series 2005-A and 2005-B, with interest paid monthly at a variable rate (Series 2005-A) or auction rate (Series 2005-B) (average rate of 2.24% at September 30, 2012) and annual principal payments through 2027	273,925
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	78,370
	1,060,450
	4,167,968
Add unamortized net premiums (discounts) (net of current portion of $36,085)	-
Less deferred loss from early extinguishment (net of current portion of $258,322)	-
Less amounts due within one year (including acceleration of certain warrant payments and all warrants in default that may be payable on demand)	4,167,968
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, 2012.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Sewer Capital Improvement and Refunding Warrants

Series 1997-A Warrants

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

Funds were deposited to escrow for the ultimate repayment of the Series 1992 and 1993 Warrants, and the Series 1995-A Warrants were purchased and retired with this issue. The Series 1997-A Warrants were partially refunded by the Series 2003-B and Series 2003-C Warrants, as described below. The Series 1997-A Warrants have an outstanding balance of $57,030 at September 30, 2012.

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

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

Series 1997-D and Series 1999-A Warrants

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

NOTE J - WARRANTS PAYABLE - Continued

Series 2001-A Warrants

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

The warrants were partially refunded by the Series 2002-C, Series 2003-B and Series 2003-C Warrants, as described below. The Series 2001-A Warrants have an outstanding balance of $10,015 at September 30, 2012. The Series 2001-A Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

Series 2002-A Warrants

Under the Fourth Supplemental Indenture dated as of February 1, 2002, between Jefferson County, Alabama and The Bank of New York Mellon, the Commission issued $110,000 of tax-exempt Sewer Revenue Capital Improvements Warrants, Series 2002-A. These warrants were issued for the purpose of funding various sewer capital improvements. The Series 2002-A Warrants have an outstanding balance of $101,465 at September 30, 2012. The Series 2002-C Warrants are insured by FGIC pursuant to a bond insurance policy issued simultaneously with the warrants.

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

Pursuant to its agreement with the Liquidity Provider under the Standby Warrant Purchase Agreement, the Commission was required to redeem the repurchased Series 2002-A Warrants on an accelerated schedule of 12 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 1, 2008. During 2009, FGIC repaid the Liquidity Provider on behalf of the Commission and acquired all rights of redemption under the original warrant indenture and the Standby Warrant Purchase Agreement. The entire outstanding balance is currently payable to FGIC as of September 30, 2012.

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.

NOTE J - WARRANTS PAYABLE - Continued

Series 2002-C Warrants

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

Of the proceeds, $825,919 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $112,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years).

The Series 2002-C Warrants 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, 2012 ($409,638 Variable Rate Demand Warrants and $397,100 of auction rate warrants).

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

Pursuant to its agreement with the Liquidity Providers, the Commission was required to redeem the repurchased Series 2002-C Warrants on an accelerated schedule of 16 equal quarterly payments beginning on the first business day of January, April, July or October that first occurs on or following the purchase date, or April 1, 2008. During fiscal year 2009, Syncora repaid the Liquidity Provider $81,934 of the outstanding warrants on behalf of the Commission acquiring the associated rights of redemption under the original warrant indentures and the Standby Warrant Purchase Agreements. The total amount currently payable at September 30, 2012 is $436,900.

Series 2002-D Warrants

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

NOTE J - WARRANTS PAYABLE - Continued

Series 2003-A Warrants

The Commission issued a $41,820 taxable Sewer Revenue Refunding Warrant, Series 2003-A as evidenced by the Eighth Supplemental Indenture between Jefferson County, Alabama and The Bank of New York Mellon dated as of January 1, 2003. This warrant was issued for the purpose of refunding $41,820 (remaining balance) of the Series 1997-C Warrants. The Series 1997-C Warrant was canceled and, due to the warrant being issued to the State of Alabama (Alabama Water Pollution Control Authority) with no issuance costs involved, there was no loss on early retirement recorded. The Series 2003-A Warrant has an outstanding balance of $11,690 at September 30, 2012.

Series 2003-B Warrants

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

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

The Series 2003-B Warrants have an outstanding balance of $1,079,980 ($79,345 fixed interest, $281,260 variable interest and $719,375 auction rate) at September 30, 2012.

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.

NOTE J - WARRANTS PAYABLE - Continued

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, 2012 is $281,260.

Series 2003-C Warrants
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 the Series 1997-A Warrants, $43,760 of the Series 1997-D Warrants, $133,590 of the Series 1999-A Warrants, $47,610 of the Series 2001-A Warrants, $333,080 of the Series 2002-B Warrants and $447,220 of the Series 2002-D Warrants). The Series 2003-C Warrants are auction rate warrants and are insured by AGM and FGIC under bond insurance policies issued simultaneously with the warrants.

Of the proceeds, $71,300 was placed in escrow for future debt service requirements, and $956,500 was placed in escrow for partial refunding of the specified warrants on the earliest call or maturity date for each issue. The Commission realized a loss on early refunding of warrants of approximately $124,000, which was deferred and is being amortized over the life of the refunded warrants (25 to 39 years). The Series 2003-C Warrants have an outstanding balance of $1,040,600 at September 30, 2012.

Subsequent Payments on Warrants Outstanding
Subsequent to September 30, 2012 and through the current date, certain scheduled principal or interest payments related to the Series 2001-A, 2003-A, 2003-B and 2003-C Sewer Warrants were not made as scheduled. The Trustee suspended payment of certain principal and interest 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. See Note V - Subsequent Events and Note W - Bankruptcy and Proposed Restructuring for further discussion.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants

General Obligation Warrants, Series 2001-A
The Commission issued $82,000 of tax-exempt General Obligation Warrants, Series 2001-A (GO Series 2001-A Warrants) dated April 1, 2001. These warrants were issued for the purpose of refunding the Commission's General Obligation Warrants, Series 2000, acquiring, constructing and equipping various capital improvements to Jefferson County's facilities and for the related warrant issuance costs. The GO Series 2001-A Warrants were repaid during 2011.

NOTE J - WARRANTS PAYABLE - Continued

General Obligation Warrants, Series 2001-B

On July 19, 2001, the Commission issued $120,000 of tax-exempt General Obligation Warrants, Series 2001-B (GO Series 2001-B Warrants). These warrants were issued for the purpose of refunding the County's General Obligation Warrants, Series 1996 (Landfill Operations) and Series 1999 and related issuance costs. The GO Series 2001-B Warrants have an outstanding balance of $105,000 at September 30, 2012.

Approximately $19,200 of the original issue was used to refund debt for the Landfill Operations Fund, of which $16,800 is the outstanding balance at September 30, 2012. The interfund balance due from the Landfill Operations Fund to the Debt Service Fund, related to interest expense, at September 30, 2012, is $76.

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

Pursuant to its agreements with the GO Liquidity Providers, the Commission 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 at September 30, 2012.

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, as discussed in detail below.

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

On March 1, 2003, the Commission issued $94,000 of tax-exempt General Obligation Capital Improvement and Refunding Warrants, Series 2003-A (GO Series 2003-A Warrants). These warrants were issued for the purpose of refunding the Commission's outstanding General Obligation Warrants, Series 1993, for capital expenditures and payment of related issuance costs. The GO Series 2003-A Warrants are insured by a bond insurance policy issued by National (formerly known as MBIA). The GO Series 2003-A Warrants have an outstanding balance of $46,185 at September 30, 2012.

NOTE J - WARRANTS PAYABLE - Continued

There were payment defaults for the April 1, 2012, October 1, 2012 and April 1, 2013, payments due, 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 (formerly known as MBIA). The GO Series 2004-A Warrants have an outstanding balance of $49,335 at September 30, 2012.

There were payment defaults for the April 1, 2012, October 1, 2012 and April 1, 2013, payments due, whereby the bond insurer, National, made payments on behalf of the Commission. 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. 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 $507,635 at September 30, 2012.

A Notice of Default was issued by U.S. Bank 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 Wells Fargo Bank (formerly Wachovia Bank, N.A.), dated January 1, 2005. These warrants were issued for the purpose of making grants to 11 local school boards operating in Jefferson County for capital improvement projects and school board debt retirement.

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 have an outstanding balance of $273,925 at September 30, 2012.

The LO Series 2005-A and 2005-B Warrants are insured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see discussion below).

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

The Trust Indenture requires mandatory redemption on March 1 of each year to the extent of any excess monies accumulated in the Redemption Fund. No redemptions were made during fiscal 2012. However, excess proceeds were transferred in December 2012 for mandatory redemptions in March 2013. See Event of Default discussion below and in Note V - Subsequent Events.

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. In addition, certain excess proceeds are being held by the Commission that are subject to remittance to the Trustee under the Indenture. See Events of Default below for further discussion.

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 in Note V - Subsequent Events for the February 15, 2013, Material Event Notice.

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, and the failure to transfer Excess Proceeds for mandatory redemptions in accordance with the Indenture. See Events of Default below for further discussion.

NOTE J - WARRANTS PAYABLE - Continued

Lease Revenue Warrants, Series 2006

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

While the Commission is not the issuer of the LR Series 2006 Warrants, the Building Authority's payment obligations under the LR Series 2006 Warrants are secured by lease revenues generated by the Commission's lease of the above-referenced buildings from the Building Authority. The LR Series 2006 Warrants are secured by a bond insurance policy issued by Ambac (Ambac filed bankruptcy in November 2010 - see below). The outstanding principal balance of the LR Series 2006 Warrants was $78,370 at September 30, 2012. Also, see Note V for subsequent events related to the lease.

The following is a summary of warrant transactions for the Commission for the year ended September 30, 2012. Activity related to the long-term debt is as follows:

Issue	Balance at September 30, 2011	Additions	Payments	Balance at September 30, 2012	Due within One Year
Business-Type Activities:					
Series 1997-A Warrants	$ 57,030	$ -	$ -	$ 57,030	$ 57,030
Series 2001-A Warrants	11,010	-	995	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	15,280	-	3,590	11,690	11,690
Series 2003-B Warrants	1,100,830	-	20,850	1,079,980	1,079,980
Series 2003-C Warrants	1,043,625	-	3,025	1,040,600	1,040,600
	3,135,978	-	28,460	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	534,400	-	26,765	507,635	507,635
Series 2005-A&B LO Warrants	279,675	-	5,750	273,925	273,925
Series 2006 Lease Warrants	82,500	-	4,130	78,370	78,370
	1,097,095	-	36,645	1,060,450	1,060,450
	$ 4,233,073	$ -	$ 65,105	$ 4,167,968	$ 4,167,968

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

NOTE J - WARRANTS PAYABLE - Continued

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, 2012. 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).

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, 2012.

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

NOTE J - WARRANTS PAYABLE - Continued

Events of Default

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

Business-Type Activities

Trustee Notices of Default

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

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

NOTE J - WARRANTS PAYABLE - Continued

As discussed in 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. The lawsuit is pending in the U.S. District Court, Northern District of Alabama. A receiver was appointed for the Commission in fiscal 2011 but subsequently dismissed after the Commission filed bankruptcy in November 2011. See Notes S and V for Contingent Liabilities and Litigation and Subsequent Events, respectively, for further discussion.

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

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

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

NOTE J - WARRANTS PAYABLE - Continued

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

February 17, 2009 - The Trustee delivered a Notice of Default to the Commission dated February 17, 2009, pursuant to Section 13.1(c) of the Indenture. The Notice of Default states that the Commission is in violation of certain covenants set forth in the Indenture and such covenant defaults became Events of Default when not cured within 30 days of the notice date.

The Trustee gave notice that a covenant default has occurred and is continuing as a result of the failure of the Commission to comply with Section 12.5(c) of the Indenture that requires the review and adjustment of customer sewer rates and charges and the implementation of a rate increase no later than January 1, 2009, to allow compliance with the Rate Covenant of the Indenture.

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

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

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

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

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

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

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

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

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

NOTE J - WARRANTS PAYABLE - Continued

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, 2012.

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

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

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

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.

NOTE J - WARRANTS PAYABLE - Continued

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

The initial forbearance period expired on April 15, 2008, and was extended over multiple periods and ultimately expired on July 31, 2009 (JPMorgan Chase Bank) or June 30, 2009 (all others), subject to termination at any time at the discretion of the Liquidity Providers.

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

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

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

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

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

On September 15, 2008, the Commission entered into separate forbearance agreements with the GO Liquidity Providers to forbear the warrants that were due until September 30, 2008 (subsequently extended to September 14, 2009). The forbearance agreements, among other items, state that the GO Liquidity Providers will not exercise their rights under the agreement. On March 13, 2008, pursuant to the Standby Warrant Purchase Agreement, the Liquidity Providers repurchased Warrants in the aggregate principal amount of $118,740. The Liquidity Providers eventually repurchased additional Warrants in the aggregate principal amount of $510 pursuant to the Standby Warrant Purchase Agreement. Bayerische Landesbank Gironzentrale subsequently purchased additional warrants in the aggregate principal amount of $750 from a warrant holder that failed to tender its Warrants under the Standby Purchase Agreement in 2008. The $105,000 balance outstanding at September 30, 2012, $103,740 is currently due and payable.

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

Certain principal ($9,695 due April 1, 2012) and interest payments (due monthly as of December 2011 and totaling $4,746) payable during fiscal 2012 were not paid by the Commission. In an April 2013 Material Event Notice (see Note V), the Trustee suspended further debt service payments on the Series 2001-B Warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9 Bankruptcy. Also see Note W - Bankruptcy and Proposed Restructuring.

NOTE J - WARRANTS PAYABLE - Continued

Covenant Violations and Notices of Default - GO Series 2003-A and 2004-A Warrants
U.S. Bank National Association (successor Paying Agent) provided written Notices of Events of Default dated April 6, 2012, October 4, 2012 and April 2, 2013, for the GO Capital Improvement Warrants, Series 2003-A and 2004-A 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 the Trustee of such intent to make the payments due. The Paying Agent distributed all of the money received from the Bond Insurer prior to the date of the Notices.

Principal of $2,880 due April 1, 2012, and interest of $2,322 was paid by National on behalf of the Commission for the GO Series 2003-A and 2004-A Warrants. In addition, principal and interest due October 2012 and April 2013 totaling $2,965 and $4,539, respectively, was paid by National on behalf of the Commission subsequent to the fiscal year end.

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

On September 15, 2008 (as amended and extended), the Commission entered into a separate Forbearance Agreement and Reservation of Rights Agreements (Forbearance Agreements) with the Liquidity Providers (JPMorgan Chase Bank and Bayerische Landesbank 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.

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.

NOTE J - WARRANTS PAYABLE - Continued

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

The Commission failed to deposit either form of funds as required by Section 14.8 of the Indenture. Furthermore, the failure to remedy the covenant default within the 30-day period subsequent to the Notice constitutes an Event of Default under Section 17.1(b) of the Indenture. As of September 24, 2012, the Commission transferred $12,553 into the Reserve Fund (balance at September 30, 2012, of $82,111) and had met its obligations under Section 14.8 of the Indenture and had 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 does 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, states that the Commission paid $21,295 of Excess Proceeds to the Trustee for deposit to the Redemption Account, and that such funds were used to redeem LO Series 2005-B Warrants as an Excess Tax Proceeds Mandatory Redemption, in accordance with the Indenture.

NOTE J - WARRANTS PAYABLE - Continued

However, the Trustee also reported that the Commission has retained and holds $3,757 in the Revenue Account that was required to be delivered to the Trustee on December 15, 2012. The Commission has indicated to the Trustee that it believes that the retention of such excess funds in the Revenue Account is an important way to assure that the Commission has sufficient liquidity in the Revenue Account during the year to make regularly scheduled payments for the School Warrants regardless of potential short-term fluctuations in the collection of Tax Revenue Proceeds.

This retention of funds constitutes a default; however, the Trustee has not sent a demand notice to the Commission to cure such default in a 30-day period. The Trustee has reserved the right to do so but has no current intentions to do so unless circumstances change or it is directed by the warrant holders to do so.

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

Depfa Bank PLC claims that the Commission failed to give them priority regarding certain redemptions of warrants with excess tax proceeds on or about March 1, 2008 and 2009. Depfa Bank PLC further notes the defaults described in the December 28, 2009, Notice (discussed above). As a result, Depfa Bank PLC 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 Bank PLC. See discussion in Note V - Subsequent Events for the February 15, 2013, Material Event Notice.

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.

NOTE J - WARRANTS PAYABLE - Continued

The Commission failed to make the required lease payment when due on March 28, 2012. The Trustee delivered a Notice of Default to the Commission by letter dated March 30, 2012. The Notice of Default states that an "Event of Default," as defined in the Lease Agreement, 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. See Note V for subsequent events.

Lease Agreement and First Supplemental Trust Indenture
The Commission entered into a replacement lease agreement effective January 1, 2013 with the Jefferson County Public Building Authority related to the LR Series 2006 Warrants. The LR Series 2006 Warrants were issued pursuant to a Trust Indenture, dated August 1, 2006, between the Public Building Authority and First Commercial Bank. The First Supplemental Trust Indenture dated as of January 1, 2013, was entered into by and between the Jefferson County Public Building Authority and First Commercial Bank. See Note V for further discussion.

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

Original Terms

Fiscal Year Ending September 30,	Business-Type Activities		Governmental Activities		Total Principal and Interest Requirements to Maturity		
	Principal	Interest	Principal	Interest	Principal	Interest	Total
2013	$ 55,185	$ 69,584	$ 81,440	$ 45,214	$ 136,625	$ 114,798	$ 251,423
2014	36,750	68,656	60,230	42,430	96,980	111,086	208,066
2015	38,515	67,682	63,045	39,639	101,560	107,321	208,881
2016	40,345	66,624	65,980	36,711	106,325	103,335	209,660
2017	42,990	66,077	69,095	33,638	112,085	99,715	211,800
2018-2022	253,345	314,185	375,775	118,513	629,120	432,698	1,061,818
2023-2027	438,775	266,090	344,885	29,347	783,660	295,437	1,079,097
2028-2032	475,600	215,538	-	-	475,600	215,538	691,138
2033-2037	589,800	156,250	-	-	589,800	156,250	746,050
2038-2042	1,136,213	56,642	-	-	1,136,213	56,642	1,192,855
	$3,107,518	$1,347,328	$1,060,450	$ 345,492	$4,167,968	$1,692,820	$5,860,788

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

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

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

Accelerated Repayment Schedule

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2013	$ 831,331	$ 165,335	$ 996,666
2014	33,046	49,610	82,656
2015	34,635	51,930	86,565
2016	36,339	54,350	90,689
2017	38,832	56,925	95,757
2018-2022	189,482	337,415	526,897
2023-2027	304,270	344,885	649,155
2028-2032	404,040	-	404,040
2033-2037	367,707	-	367,707
2038-2042	867,836	-	867,836
	$ 3,107,518	$ 1,060,450	$ 4,167,968

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

Due on Demand Accelerated Repayment Schedule

Fiscal Year Ending September 30,	Business-Type Activities Principal Payments Due	Governmental Activities Principal Payments Due	Total Principal Payments Due
2013	$ 3,107,518	$ 1,060,450	$ 4,167,968
Thereafter	-	-	-
	$ 3,107,518	$ 1,060,450	$ 4,167,968

NOTE J - WARRANTS PAYABLE - Continued

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

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

Defeasance of Warrants and Deferred Loss on Refundings (in thousands)
In prior years, the Commission advance refunded certain revenue warrants by placing the proceeds of the new warrants in irrevocable trust accounts to provide for payment of all future debt service requirements, including the ultimate repayment of the warrants outstanding. The refundings pertaining to each warrant issue are noted in the descriptions of the warrants above. These warrants are defeased under the terms of the Indenture.

Accordingly, the trust account assets and the liability for the defeased warrants are not included on the Commission's financial statements. At September 30, 2012, warrants of $6,385 of Governmental Activities are outstanding, and the related fair market value of the escrow account balances for these defeased warrants held in trust totals $6,864 at September 30, 2012. During the fiscal year ended September 30, 2012, the Business-Type Activities defeased warrants totaling $1,015 were repaid on the August 1, 2012 call date from escrowed funds. There are no escrowed funds held at September 30, 2012.

Accrued Arbitrage Rebate (amounts in thousands)
Sections 148(f)(2) and 1.148-1 to 11 of the Internal Revenue Code of 1986, as amended, require any entity issuing tax-exempt warrants to have computations of potential rebate amounts for investment earnings in excess of prescribed allowed amounts for tax-exempt warrants proceeds that have not been expended. The Commission must make installment payments in an amount equal to 90 percent of 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, 2012. 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. Also see Note S - Contingent Liabilities and Litigation and Note V - Subsequent Events.

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	(26,262)	(265)	(91,548)
	46,591	6,305	269,070
Current year (amortization) accretion, net	(2,925)	(195)	(10,748)
Net balance at September 30, 2012	$ 43,666	$ 6,110	$ 258,322
Governmental Activities:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 19,128	$ 51,347	$ 1,793
Accreted (amortized), net in prior years	(7,158)	(18,913)	(1,793)
	11,970	32,434	-
Current year (amortization) accretion, net	(844)	(2,457)	-
Net balance at September 30, 2012	$ 11,126	$ 29,977	$ -
Commission total:			
Total net premiums (discounts), issuance costs, deferred loss on refunding	$ 91,981	$ 57,917	$ 362,411
Accreted (amortized), net in prior years	(33,420)	(19,178)	(93,341)
	58,561	38,739	269,070
Current year (amortization) accretion, net	(3,769)	(2,653)	(10,748)
Net balance at September 30, 2012	$ 54,792	$ 36,086	$ 258,322

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

NOTE J - WARRANTS PAYABLE - Continued

Restricted Debt Service Accounts (amounts in thousands)

Business-Type Activities

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

In accordance with the terms of the Indenture, the Commission obtained surety policies for the reserve fund for certain warrant issues. The rate stabilization fund has no balance at September 30, 2012.

The Trustee can and has authorized disbursements from certain reserve funds held for the Business-Type Activities Warrants for payment of principal and interest due during fiscal 2008 (none in fiscal 2012). The Trustee notified the Commission of the failure to maintain or replenish the reserve funds at the levels required under the warrant agreements which resulted in default for these warrant agreements.

In addition, the proceeds from each warrant issue were placed in an escrow account to be disbursed based on approved expenditures for the proceeds. Remaining balances are recorded as restricted cash or investments for the purposes set forth in the warrant documents. Restricted cash and investments related to the warrant agreements totaled $173,511 at September 30, 2012. See Note D for a discussion of the investments held at year end and Note V for events subsequent to year end.

Governmental Activities

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

Restricted cash and investments totaled $178,004 at September 30, 2012. See Note D for discussion of the investments held at year end.

NOTE J - WARRANTS PAYABLE - Continued

Continuing Disclosures

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

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

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

Material 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.

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

	Fiscal Year Ended September 30,			
	2012	**2011**	**2010**	**2009**
Active accounts	140,069	139,706	140,092	141,590
Average daily treatments volume (millions of gallons treated)	104	98	125	113
Sewer charges (000s)	$159,179	$173,312	$160,467	$166,931
% Revenue - largest customer	1.63%	1.61%	1.49%	1.21%
% Revenue - top 10 customers	8.07%	8.31%	6.40%	6.31%

NOTE J - WARRANTS PAYABLE - Continued

(unaudited) 2012 Top 10 Customers	(unaudited) Consumption (in Gallons)	(unaudited) Billed
U.S. Steel	509,159	$ 2,597,393
University of Alabama at Birmingham	410,685	3,039,069
Birmingham Housing Authority	212,166	1,570,028
Veterans' Administration	142,964	1,057,934
Coca-Cola Bottling Company	140,548	624,033
Barber's Pure Milk Company	124,272	809,259
SMI Steel, Inc.	114,505	847,337
Brookwood Medical Center	107,763	797,446
Samford University	104,034	769,852
Trinity Medical Center	99,856	738,934
	1,965,952	$ 12,851,285

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 Proposed Restructuring (see Notes S, V and W for discussion of Contingent Liabilities and Litigation, Subsequent Events and Bankruptcy and Proposed 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.

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.

NOTE J - WARRANTS PAYABLE - Continued

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 2012 and subsequent periods, certain payments of principal and interest were made on behalf of the Commission by the insurers. The amounts paid are disclosed in this report and are currently payable from the Commission to the insurers. As a result, the insurers have assumed certain rights under the terms of the related warrant agreements.

In addition, other payments of principal and interest are due on certain warrants but remain unpaid at September 30, 2012, by the Commission or the insurers. As a result, the Commission has a payment Event of Default for certain warrant agreements - see Event of Default section above.

FGIC and Syncora directed the Trustee in 2008 to initiate a lawsuit against the Commission seeking, among other relief, the appointment of a receiver over the Jefferson County Sewer System. See discussion in Note S - Contingent Liabilities and Litigation.

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

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Material Event Notices

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

NOTE J - WARRANTS PAYABLE - Continued

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

The downgrades of Syncora and FGIC caused the Syncora and FGIC surety bonds held by the Trustee in the Reserve Fund to fail the ratings requirements of the Indenture (see Substitution of Surety Bonds in Reserve Fund discussion below). Additionally, certain notices of default were received under the Standby Warrant Purchase Agreements. The Commission and all other parties to the Liquidity Facilities entered into forbearance agreements (see Liquidity Facility Forbearance Agreements and Swap Forbearance Agreements - Note K).

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

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

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

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

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

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

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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.

***October 4, 2011* -** The October 4, 2011, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $46,046 in aggregate principal amount of Warrants was due for accelerated redemption on October 1, 2011. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on October 1, 2011.

***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).

***January 5, 2012* -** The January 5, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $46,046 in aggregate principal amount of Warrants was due for accelerated redemption on January 1, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on January 1, 2012.

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

NOTE J - WARRANTS PAYABLE - Continued

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

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

April 6, 2012 **-** The April 6, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C and Series 2003-B Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $9,135 in aggregate principal amount of Warrants was due for accelerated redemption on April 2, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on April 2, 2012.

July 9, 2012 **-** The July 9, 2012, Material Event Notice disclosed that a payment default had occurred on certain of the Series 2002-C Warrants that have been purchased by banks that entered into Standby Warrant Purchase Agreements with the Commission at the time of issuance of the Warrants. Under the terms of the Standby Warrant Purchase Agreements, $20,000 in aggregate principal amount of Warrants was due for accelerated redemption on July 2, 2012. The Commission failed to pay the redemption price of the Warrants scheduled for redemption on July 2, 2012.

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

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

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

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

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 $11,436 are accrued at September 30, 2012.

As of September 30, 2012, 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 and Note V- Subsequent Events for related discussion of reserve fund requirements and shortfalls. The balance in funds restricted for debt service or capital improvements at September 30, 2012, was $29,786.

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Event Notices

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

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

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

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.

NOTE J - WARRANTS PAYABLE - Continued

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.

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.

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.

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.

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

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

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

March 30, 2012 **-** The March 30, 2012, Material Event Notice disclosed that on March 28, 2012, the Commission failed to make the April 1, 2012, required lease principal payment in the amount of $4,130 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 also stated that it does not plan to make a lease payment prior to April 1, 2012. The Commission expects that the Trustee will draw upon available monies on deposit in the Reserve Fund established under the Indenture to pay the principal and interest due on April 1, 2012.

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

NOTE J - WARRANTS PAYABLE - Continued

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

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

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

Failure by the Commission to pay the principal and interest on the LR Series 2006 Warrants in the amount of $6,211 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.

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.

NOTE J - WARRANTS PAYABLE - Continued

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.

See Note V - Subsequent Events for additional subsequent events and Material Event Notices. Also see Note W - Bankruptcy and Proposed Restructuring.

Warrant Payments Not Made Subsequent to September 30, 2012 (amounts in thousands)

Governmental Activities
Subsequent to September 30, 2012 and through October 1, 2013, the Commission did not make scheduled principal payments of $10,150 and interest payments of approximately $6,040 related to the GO Series 2001-B Warrants. In addition, principal payments of $2,965 and interest payments totaling $6,744 related to the GO Series 2003-A and 2004-A Warrants were made by National on behalf of the Commission.

The Commission suspended payment of certain principal and interest payments on warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9 Bankruptcy. See Note V - Subsequent Events and Note W - Bankruptcy and Proposed Restructuring.

Business Type Activities
Subsequent to September 30, 2012 and to August 2013, the Trustee withheld scheduled principal payments of $29,685 related to the Series 2001-A, 2003-A, 2003-B and 2003-C Sewer Warrants and interest payments of approximately $4,069 related to the Series 1997-A, 2001-A, 2003-A and the fixed rate 2003-B Sewer Warrants. Likewise, starting February 1, 2013 and continuing to August 2013, the Trustee withheld interest payments totaling $5,077 related to the Series 2002-A, 2002-C, 2003-B and 2003-C Sewer Warrants. See Note V - Subsequent Events.

The Commission suspended payment of certain principal and interest payments on warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9 Bankruptcy. See Note V - Subsequent Events and Note W - Bankruptcy and Proposed Restructuring.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS

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

In connection with the issuance of the Sewer Revenue Warrants, the Commission entered into various interest rate swap transactions, all of which were terminated prior to September 30, 2012.

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, 2012, 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.

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

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, 2012 (all terminated prior to September 30, 2009) (all amounts reported in thousands):

Issue and Counterparty	Original Notional Amount	Termination Date	Termination Payment Notice - (Payment) Receipt	Amount Waived Per 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	(173)	(26,008)
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	(10,192)	(78,760)
Bear Stearns	824,700	3/3/2009	10,524	NA	162	10,686
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	137	6,387
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	(10,066)	(87,695)
Governmental Activities						
Series 2001-B Warrants:						
JPMorgan Chase Bank	120,000	9/4/2008	(7,894)	-	(1,373)	(9,267)
	$5,479,950		$ (764,516)	$ 678,993	$ (11,439)	$ (96,962)

Termination Events

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

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

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

All such interest rate swap agreements were terminated. See the section entitled “Interest Rate Swap Agreements Termination Events” within this note for further disclosures regarding the termination of the interest rate swap agreements.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

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, net of all swap payments outstanding under the Forbearance Agreement, due to Bank of America.

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

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

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

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

Legal Settlement - JP Morgan Chase Bank

The termination event resulted in $647,804 of termination fees, net of all swap payments outstanding under the Forbearance Agreement, due to JPMorgan Chase Bank. JPMorgan Chase Bank waived the termination fees on November 4, 2009, and paid the Commission $75,000 as part of a legal settlement with the Securities and Exchange Commission (SEC) and the Commission.

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

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, which represents the estimated termination fees and related accrued interest for the interest rate swap agreements with BAC for the Sewer Revenue Warrants.

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

NOTE K - DERIVATIVES/INTEREST RATE SWAP AGREEMENTS - Continued

GOVERNMENTAL ACTIVITIES (amounts in thousands)

General Obligation Warrants, Series 2001-B

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

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

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

Interest Rate Swap Agreements Termination Events

The Commission received a notice from JPMorgan Chase Bank dated August 27, 2008, designating September 4, 2008, as the Early Termination Date under the 2001 Warrant - Series B General Obligation Warrants Interest Rate Swap Agreement. The termination event resulted in $7,894 of termination fees due to JPMorgan Chase Bank. These termination fees were not part of the SEC legal settlement mentioned above and are still outstanding as of September 30, 2012, and accrued in these financial statements.

A September 5, 2008, notice stated that after applying the Market Quotation Method, as provided for in the swap agreement, the Commission owed JPMorgan Chase Bank a termination amount of $8,086 less unpaid amounts owed to the Commission of $192, or a net payment amount of $7,894. The negative fair value was $9,267 for the JPMorgan Chase Bank interest rate swap agreement as of September 30, 2012, including $1,373 of accrued interest.

NOTE L - CONDUIT DEBT OBLIGATIONS

The Commission issued Limited Obligation School Warrants, Series 2000 in order to finance the costs of acquiring certain public school facilities (the Leased Property) of the Jefferson County Board of Education (the Board) for lease back to the Board. The funds were used to retire the Board's current revenue anticipation warrant dated May 3, 2000. The Board simultaneously executed a capital lease agreement with the Commission for the aforementioned property and pledged tax proceeds for the lease payments which will approximate debt service requirements under the Jefferson County Commission's Limited Obligation School Warrants, Series 2000.

The warrants do not constitute a debt or pledge of the faith and credit of the Jefferson County Commission and, accordingly, have not been reported in the accompanying financial statements. Upon repayment of the warrants, ownership of the leased property will return to the Board. As of September 30, 2012, the principal amount outstanding was $23,935,000.

NOTE M - DEFINED BENEFIT PENSION PLAN

Plan Description

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

The Plan's financial statements are publicly available in the annual report of the General Retirement System for Employees of Jefferson County, Alabama for the year ended September 30, 2012. The report may be reviewed at the Jefferson County Courthouse, Room 430, Birmingham, Alabama.

Funding Policy

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

NOTE M - DEFINED BENEFIT PENSION PLAN - Continued

Annual Pension Cost

For the year ended September 30, 2012, the Commission's annual pension contribution of $7,647,000 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, 2012, 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, 2012, was five 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
09/30/2012	$ 7,744	100%	$ -
09/30/2011	8,923	100%	-
09/30/2010	9,297	100%	-

Funding Progress

For the year ended September 30, 2012, 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]
09/30/12	$ 931,093	$ 913,822	$ (17,271)	101.89%	$ 118,896	(14.53%)

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.

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

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

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

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, 2011, the most recent actuarial valuation date, the OPEB had 542 retired participants. The OPEB Plan had a total of 3,089 and 37 active participants and vested terminated participants, respectively. The Commission subsidizes a portion of the retirees' health care insurance premiums based on the total years of County service and age at retirement. The Commission's subsidy for each covered retired employee ranges from $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.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

Funding Policy - The Commission has not set aside assets in a qualifying trust fund as of September 30, 2012, and is currently financing the OPEB Plan on a pay-as-you-go basis. Retirees and employees are not required to contribute to the OPEB Plan.

The Commission's OPEB cost is calculated based on the ARC calculated using the projected unit credit method, an allowable cost method under GASB Statement No. 45, *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	09/30/12	$ 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
09/30/10	09/30/10	7,436	26	(24)	7,438	5,523	74.3%	1,915	639	2,554
09/30/08	09/30/09	5,038	(1)	1	5,038	4,371	86.8%	667	(28)	639
09/30/08	09/30/08	5,038	-	-	5,038	5,066	100.6%	(28)	-	(28)

Funding Status and Funding Progress

As of September 30, 2011, the most recent actuarial valuation date, the OPEB was zero percent funded. The actuarial accrued liability was $80,163,000, and the actuarial value of assets was $-0-, resulting in an unfunded actuarial accrued liability of $80,163,000. Covered payroll was approximately $118,896,000, resulting in unfunded actuarial liability as a percentage of payroll of 67 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.

NOTE N - OTHER POSTEMPLOYMENT BENEFITS (OPEBS) - Continued

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

Actuarial Methods and Assumptions

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

Additional information as of the latest actuarial valuation follows:

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

NOTE O - RISK MANAGEMENT

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

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

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

NOTE O - RISK MANAGEMENT - Continued

- *Property Insurance* - Commercial insurance coverage purchased in the maximum amount of $1 billion per occurrence, except a separate annual aggregate of $50 million flood and earthquake, to include the following sublimits: (a) the Commission participates in an Owner Controlled Insurance Program with respect to property in the course of construction, builder's risks and installation or erection; (b) $50 million per occurrence as included in the $500 million loss limit subject to the policy terms and conditions; (c) $5 million with respect to extra expense and (d) $500,000 with respect to transit.

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

- *Health Insurance* - Self-insured with excess coverage through a commercial insurance provider. The Commission purchases specific reinsurance coverage with an unlimited benefit for each covered person, subject to a $250,000 deductible per covered person. Employees may obtain health care services through participation in the Commission's group health insurance plan. Risk management administers health insurance and negotiates with private providers to provide health, life, accidental death and dismemberment, vision and dental insurances for its employees and dependents. The Commission pays approximately 75 percent of health 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, 2012, changes in the claims liabilities for the health self-insured activities for the Commission are as follows:

Balance October 1, 2011	Claims Incurred	Claims Paid	Increase/ Decrease in Provision	Balance September 30, 2012
$ 3,326,000	$ 17,168,000	$ (19,942,000)	$ 646,000	$ 1,198,000

NOTE O - RISK MANAGEMENT - Continued

For the year ended September 30, 2012, 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	
	2012	2011	2012	2011	2012	2011	2012	2011
Unpaid claims and claim adjustment expenses:								
Accrual at beginning of fiscal year	$ 1,929	$ 1,335	$ 300	$ 269	$ 4,040	$ 4,230	$ 6,269	$ 5,834
Incurred claims and claim adjustment expenses:								
Provision for insured events of current fiscal year	519	915	45	127	1,197	962	1,761	2,004
Increases/decreases in provision for insured events of prior fiscal years	(251)	(150)	21	(88)	330	(18)	100	(256)
Total incurred claims and claim adjustment expenses	268	765	66	39	1,527	944	1,861	1,748
Payments:								
Claims and claim adjustment expenses attributable to insured events of current fiscal year	(77)	(171)	(34)	(8)	(217)	(1,134)	(328)	(1,313)
Claims and claim adjustment expenses attributable to insured events of prior fiscal years	-	-	-	-	(1,175)	-	(1,175)	-
Total payments	(77)	(171)	(34)	(8)	(1,392)	(1,134)	(1,503)	(1,313)
Accrual at end of fiscal year	$ 2,120	$ 1,929	$ 332	$ 300	$ 4,175	$ 4,040	$ 6,627	$ 6,269

NOTE P - JEFFERSON COUNTY ECONOMIC AND INDUSTRIAL DEVELOPMENT AUTHORITY

The Jefferson County Economic and Industrial Development Authority (the Development Authority) is considered a blended component unit of the Commission. The financial position and results of operations of the Development Authority have been included in the accompanying financial statements as a nonmajor enterprise fund with any significant interfund activity being eliminated. At September 30, 2012, the Development Authority was indebted to the Commission in the amount of $15,394,000, which is presented as advances due to/from other funds in the accompanying statement of net assets. This amount is eliminated in the government-wide statement of net assets.

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

Warrants Payable

The following summarizes the changes in the Development Authority's warrants payable for the year ended September 30, 2012:

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

Warrants payable are comprised of the following at September 30, 2012 (in thousands):

Industrial Park Revenue Bonds, Series 2004, with interest paid semiannually at fixed rates ranging from 1.48% to 3.90% and annual principal payments ranging from $415 to $1,435 through March 1, 2013 (less unamortized discount of $1 and deferred loss on refunding of $2, of which all are current)	$ 412
Less amount due in one year, net	412
Warrants payable - noncurrent, net	$ -

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

	Principal	Interest	Total
2013	$ 415	$ 7	$ 422

As of September 30, 2012, the amount recorded for deferred charges - issuance costs was $1,000, which is classified as current assets.

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

Defeased Debt

On February 2, 2004, the Development Authority issued $10,650,000 of Industrial Park Revenue Bonds of which $10,650,000 was placed in an irrevocable trust for the purpose of generating resources for all future debt service payments through 2013 ($11,465,000 principal) of the 1998 bonds. As a result, the refunded bonds are considered to be defeased, and the liability was removed. The outstanding balance of defeased debt as of September 30, 2012, was $1,450,000.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS

Advances to/from Other Funds

The amounts of advances to/from other funds at September 30, 2012, 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	$ 21	$ 6,926	$ -	$ 139	$ 17,661	$ 24,747
Nonmajor Governmental Funds	-	-	-	-	16,800	16,800
	$ 21	$ 6,926	$ -	$ 139	$ 34,461	$ 41,547

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.

The Commission has fully reserved the receivable for indirect costs from the Sanitary Operations Fund to the General Fund of $7,052,000 at September 30, 2012. The status of this receivable is uncertain and may be subject to dispute but the Commission has reserved all of its rights in connection therewith.

NOTE Q - TRANSACTIONS WITH OTHER FUNDS - Continued

Interfund Transfers

The amounts of interfund transfers during the fiscal year ended September 30, 2012, were as follows:

	Transfers in (in Thousands)				
	General Fund	Cooper Green Hospital Fund	Nonmajor Governmental Funds	Nonmajor Enterprise Funds	Totals
Transfers out:					
General Fund	$ -	$ 4,194	$ 4,055	$ 793	$ 9,042
Indigent Care Fund	64	46,198	-	-	46,262
Bridge and Public Building Fund	15,392	-	27,424	-	42,816
	$ 15,456	$ 50,392	$ 31,479	$ 793	$ 98,120

The Commission typically uses transfers to fund ongoing operating subsidies, to service a portion of current-year debt requirements and to provide for hospital operations. The Commission transferred capital assets from the Community Development Fund to the Cooper Green Hospital Fund of $955,000 during the year.

NOTE R - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS

At September 30, 2012, the Commission has commitments of the following:

Name of Commitment	(in Thousands) Amount
Cahaba to Valley Creek wastewater treatment plant	$ 698
Linndale Road improvements	500
Village Creek wastewater treatment plant	795
Tornado-related emergency assistance	7,898
Brooklane Road improvements	1,500
Cahaba River wastewater treatment plant	778
Environmental Services equipment purchases	600
Sewer collection system asset management program	2,491
Cahaba River sewer system monitoring	839
Sewer system long-term flow monitoring	650
Sewer repairs and maintenance	3,718
Environmental Services legal fees	608
	$ 21,075

NOTE R - CONSTRUCTION AND OTHER SIGNIFICANT COMMITMENTS - Continued

From time to time, the Commission enters into agreements with developers and vendors to promote economic development within Jefferson County. As of September 30, 2012, the Commission accrued expenses related to these agreements of $1,365,000 into general fund accounts payable in the accompanying balance sheet. The Commission continues to explore renegotiating its economic development agreements in bankruptcy. As of September 30, 2012, the following schedule details estimated payments to be made in subsequent years assuming the developers and vendors meet specific criteria within the agreements and assuming no further changes to the agreements during bankruptcy (in thousands):

2013	$	2,175
2014		2,175
2015		2,175
2016		800
	$	7,325

NOTE S - CONTINGENT LIABILITIES AND LITIGATION

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

As a result, the Commission was ordered to refund those taxes in the amount of approximately $37,800,000. To that end, the Commission escrowed occupational tax collections from January 12, 2009 to August 13, 2009. While the case was on its first appeal, the Alabama Legislature reauthorized the Commission to collect occupational, license and privilege taxes. In a subsequent appeal, the Alabama Supreme Court recognized that, under the new legislation, the Commission could levy and collect the new tax for the period covered by the escrow, but 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.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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 has already paid $1,100,000 to cover the administrative costs of refund administration pursuant to the trial court's order. The final settlement provided an additional $70,000 paid from the Edwards Preliminary Settlement Amount to cover expenses. Based on the final approval, approximately $6,400,000 was returned to the Commission. Two members of the settlement subclass have filed an appeal of the trial court's final approval of the settlement. The Bankruptcy Court granted the County's motion to lift the automatic stays as to such appeal. On November 16, 2012, the Alabama Supreme Court affirmed the trial court's order approving the final settlement.

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

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Wilson v. Bank of America, et al, Case number CV-2008-901907.00, was filed on June 16, 2008, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. Plaintiffs, representatives of a putative class, allege that Jefferson County's sewer rates are unconstitutionally high, that the Indenture pursuant to which the Commission issued sewer warrants is invalid and that the chapter of the Alabama Code that authorized the issuance of the Commission's sewer warrants is invalid. Plaintiffs have sued several banks and individuals in addition to the Commission. The Commission, along with numerous other parties, moved to dismiss the action. The Bankruptcy Court subsequently denied all motions to dismiss. Several defendants petitioned the Alabama Supreme Court for writs of mandamus to have the trial court's denial of the motions to dismiss overturned, but the Alabama Supreme Court has not yet ruled on those petitions. In December 2011, one of the counts in this lawsuit was removed to the United States District Court for the Northern District of Alabama, which referred that count to the Bankruptcy Court, where the removed count was assigned Adversary Proceeding Number 11-00433-TBB. The matter remains pending with one count in Bankruptcy Court and one count in state court. The count in state court is stayed by operation of the automatic stays in effect in the Commission's Bankruptcy Case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2012.

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. After the court abstained, the plaintiff filed suit for the appointment of a receiver in state court, as discussed immediately below. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2012.

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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.

On November 21-22, 2011, the Bankruptcy Court held evidentiary hearings regarding these motions. On January 6, 2012, the Bankruptcy Court issued its opinion, holding that with one exception, the automatic stays in the Bankruptcy Case did prevent the state court litigation from proceeding and finding that cause did not exist for granting relief from such automatic stays to allow such state court litigation to continue. The one exception noted in the Bankruptcy Court's opinion related to postpetition net system revenues derived from the Commission's sanitary sewer system and the claims of the Commission's sewer warrant holders to such funds. The plaintiff and several other parties to this action appealed the Bankruptcy Court's decision, and the Commission, in turn, filed a cross-appeal. The United States Court of Appeals for the Eleventh Circuit granted the parties' petitions for permission to take direct appeals, and all such appeals and cross-appeals have been consolidated under the Court of Appeals' Case Number 12-13654. The parties have completed their briefing before the Eleventh Circuit on all appeals and cross-appeals. 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 is holding the appeals and cross-appeals in abeyance until January 15, 2014. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2012.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Jefferson County, Alabama v. JPMorgan, et al, Case number CV-2009-903641.00, was filed on November 13, 2009, in the Circuit Court of Jefferson County, Alabama, Birmingham Division. The Commission brought suit against J.P. Morgan Securities, Inc.; JPMorgan Chase Bank National Association; Blount Parrish & Company; Charles LeCroy; Douglas MacFaddin; Larry Langford; William Blount; and Albert LaPierre asserting fraud, unjust enrichment and conspiracy claims. The claims are alleged to be based, at least in part, on events that took place before September 30, 2012. The Commission seeks damages in excess of a billion dollars, and the JPMorgan defendants have counterclaimed for indemnification. This lawsuit is currently 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. The outcome of this case is unknown.

Syncora Guaranty v. Jefferson County, Alabama, et al, Case number 601100/10, was filed on April 29, 2010, in the Supreme Court of New York, County of New York. This litigation was brought by Syncora, one of the insurers of Jefferson County's sewer warrants, against the Commission, JPMorgan Chase Bank, N.A. and J.P. Morgan Securities, Inc. (the two non-Commission defendants, collectively, JPMorgan). The claims are based, at least in part, on events that allegedly took place before September 30, 2009. Syncora alleges that the Commission committed fraud in two ways. First, it alleges that the Commission suppressed the existence of analyses of the Commission's sewer operations that would have shown Syncora that the system's expected revenues were insufficient to meet its debt service obligations. Second, Syncora alleges that the Commission and JPMorgan concealed the bribery scheme that existed between certain former Commissioners and JPMorgan.

Syncora claims damages in excess of $400,000,000, and the Commission disputes such claims. Unlike the *Bank of New York Mellon* litigation where the plaintiff's recovery was limited to the net revenues of the sewer system, it is possible that Syncora could seek to collect any damages it is awarded from the Commission's General Fund. The Commission counterclaimed against Syncora, claiming that Syncora defrauded the Commission by concealing the weakness of Syncora's investment portfolio. Syncora moved to dismiss the Commission's counterclaims, and the Court granted that motion. Moreover, JPMorgan has cross-claimed against the Commission for indemnification, alleging that certain documents executed in connection with the Commission's sewer financing require the Commission to reimburse any of JPMorgan's liability to Syncora. The Commission moved to dismiss JPMorgan's cross-claim, but that motion was denied at a hearing on August 16, 2011. This case is currently stayed as a result of the Commission's commencement of its Chapter 9 Bankruptcy Case. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2012.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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 currently is stayed as a result of the Commission's commencement of the Bankruptcy Case. AGM has filed a motion for relief from the automatic stays in the Bankruptcy Case seeking permission to proceed with its claims against JPMorgan, but the Bankruptcy Court denied the motion. The Commission cannot estimate a loss, if any, related to this case as of September 30, 2012.

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 operation of the Bankruptcy Case and by the trial court pending the outcome of a similar case filed against the State of Alabama which was argued to the Supreme Court of the United States. An opinion was recently issued in the similar case and was unfavorable to the State. There is, thus, a potential for an adverse outcome to the Commission requiring a refund of sales taxes in the combined cases in an amount in excess of $3,500,000. Management has accrued an estimate of loss related to these cases as of September 30, 2012.

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

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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

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

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

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

The outcome of this matter is unknown; therefore, the Commission cannot estimate a loss, if any, related to the claim by The Bank of New York Mellon or by the Receiver as of September 30, 2012.

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. There is currently no active litigation on this matter. The likely outcome of this matter is unknown.

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

Payments made on behalf of the Commission are accrued and reported as liabilities in these financial statements. The recourse for this payment is limited to sewer revenue. There is currently no active litigation on this matter.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

US Bank Notice of Default Regarding School Warrants. Prior to the commencement of the Commission's Bankruptcy Case, the Commission was unable to replenish the reserve fund for the LO Series 2004-A, 2005-A and 2005-B Warrants as quickly as required by the Trust Indenture as a result of the credit rating downgrade of the issuer of the surety bond (Ambac) held as a part of the reserve fund. On September 24, 2012, after the commencement of the Bankruptcy Case, the Commission fully replenished such reserve fund. After the commencement of the Bankruptcy Case, U.S. Bank filed one or more proofs of claim in the Bankruptcy Case in which it claimed, among other things, $819,650,000 in outstanding principal owing upon such LO Series Warrants, $10,203,964 in accrued and unpaid interest owing thereon and premium to the extent owing under the pertinent indenture. There is currently no active litigation on this matter.

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

These agreements do not change the principal amount of the pertinent general obligation warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of warrants purchased pursuant to those standby agreements. Wells Fargo Bank, the successor indenture trustee with respect to the GO Warrants in question, has filed a proof of claim in the Bankruptcy Case with respect to such warrants in the amount of $105,138,677. Both Bayerische Landesbank and JPMorgan Chase Bank, N.A. have also filed proofs of claims asserting claims with respect to the respective standby warrant purchase agreements. There is currently no active litigation on this matter.

Potential Obligations under Standby Warrant Purchase Agreements Relating to Sewer Warrants (also discussed in Note J). Sewer warrants were purchased by financial institutions under various standby warrant purchase agreements. The total principal amount of sewer warrants purchased under these standby warrant purchase agreements is approximately $850,000,000. These agreements do not change the principal amount of the Commission's sewer warrants, but they do provide for acceleration of principal payments and provide for interest to accrue at higher rates to holders of warrants purchased pursuant to those agreements. The indenture trustee with respect to the sewer warrants has filed a proof of claim in the Bankruptcy Case in which it asserts a claim for all amounts due on account of the Commission's outstanding sewer warrants, which claim encompasses those sewer warrants purchased under such standby warrant purchase agreements. In addition, some, if not all, of the parties that purchased sewer warrants pursuant to such standby warrant purchase agreements (or their assignees) have filed their own proofs of claim in the Bankruptcy Case with respect to the sewer warrants they hold. There is currently no active litigation on this matter.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Claim Against County Regarding Validity of Sewer Warrants. On June 1, 2011, James Hilgers sent a notice of claim to the Commission President that takes the position that the Commission's sewer debt is void and unenforceable because it does not comply with the requirements of Amendment 73 of the Constitution of Alabama. The Commission continues to evaluate the allegations of this claim in connection with its Bankruptcy Case, and there is currently no active litigation with respect to it. The likely outcome of this matter is unknown.

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

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

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

One issue not addressed by the Bankruptcy Court's memorandum opinion (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. 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").

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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 have agreed not to take any further action on the potential appeal unless: (i) such action is 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 believes 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 believes action is necessary to preserve the appeal.

The Bankruptcy Court has 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. The likely outcome of this matter is unknown.

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

Bennett et al. v. Jefferson County, Alabama, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00120: 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.

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.

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 appear to be duplicates, each assert claims in the amount of $1,630,000,000 which claims appear to be for alleged overcharges in sewer rates. The Commission has filed an objection to these proofs of claim. The Bankruptcy Court has not held any hearing on or ruled upon the Commission's objection to these proofs of claim. The likely outcome of this matter is unknown.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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 has not ruled on the Commission's motion to dismiss.

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

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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

Lehman Brothers Special Financing Inc. v. The Bank of New York Mellon, as indenture trustee, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 12-00149: In October 2012, Lehman Brothers Special Financing Inc. filed an adversary proceeding in the Bankruptcy Court against the 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 is currently 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. The indenture trustee has filed its answer to the complaint. The likely outcome of this matter is unknown.

Ahmed Farah v. Jefferson County Commission, et al. United States Bankruptcy Court for the Northern District of Alabama, Southern Division, Adversary Proceeding No. 13-00002: In January 2013, Dr. Farah filed suit against the Commission and the Commission's chief executive officer claiming money damages in the amount of $276,000 for alleged breach of contract, unjust enrichment and declaratory judgment. The case was settled, and the Bankruptcy Court has entered an order dismissing this adversary proceeding with prejudice. The matter is concluded. The settlement was accrued in the accompanying financial statements at September 30, 2012.

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.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The indenture trustee filed a proof of claim in the Bankruptcy Case alleging that the Commission was liable in an amount not less than $86,475,000 on account of the 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.

United States v. Jefferson County, et al., United States District Court for the Northern District of Alabama, Southern Division, Case Number 2:75-CV-00666-CLS: Various private Plaintiffs and the United States filed suit against the Jefferson County Personnel Board, Jefferson County and other Defendants to remedy alleged wrongs in the hiring and promotion of African-American and female applicants and employees. After considerable negotiations, litigation and appeals, the Commission entered into a Consent Decree on December 29, 1982. This Decree, along with other Consent Decrees executed by other parties, remained the subject of further litigation and negotiations including, in 2002, the federal district court appointing a Receiver for the Jefferson County Personnel Board. The active portion of the litigation began on October 3, 2007, when two groups of Plaintiffs filed a motion to hold the Commission in contempt of court for failing to comply with the Consent Decree's requirements to ensure equal employment for blacks and women and to remedy the effects of prior discrimination. The United States did not join in the motion to hold the Commission in contempt. The Plaintiffs also alleged that the Commission had failed to comply with Consent Decree requirements regarding hiring specific compliance officers and record keeping. The Plaintiffs also sought to modify the Consent Decree to mandate particular practices that the Plaintiffs would like to see implemented. A hearing was held in December, 2012 and the Commission vigorously defended the case.

The United States District Court, on August 20, 2013, entered its decision and order finding the Commission in contempt of court and informing the parties that a Receiver will be appointed over the Human Resources Department. The Court held a status conference on September 26, 2013, and directed the parties to submit proposed orders for appointing a Receiver. The Commission expects the Court to enter a Receiver Order forthwith.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

The County 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 potential monetary claims and it is impossible to predict the likely outcome of this issue at this time. Management has accrued an estimate of loss related to these cases as of September 30, 2012.

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

Two of these municipalities' proofs of claim are significant: (a) the proof of claim filed by the City of Birmingham in the amount of $10,999,743 for the remittance of road taxes and business privilege taxes and (b) the proofs of claim filed by the City of Bessemer, in the amount of $2,962,250, for the remittance of certain taxes and other alleged damages. The likely outcome of this matter is unknown.

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

The Commission has filed a motion to stay all proceedings on these motions, and the Bankruptcy Court has granted such request, staying 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. The likely outcome of this matter is unknown.

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

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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 accompanying financial statements at September 30, 2012.

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.

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

Claims Relating to Landfill Operation. The Commission owns a landfill which it leases to Santek, a private operator. Prior to the commencement of the Bankruptcy Case, the Commission, as a municipality, was excepted from the general requirement that it post a bond or other financial security with the Alabama Department of Environmental Management (ADEM) as a condition to the operation of such landfill. ADEM has advised the Commission that ADEM does not believe that the Commission is currently entitled to benefit from such exception and, accordingly, has requested that a bond or other financial security be posted with ADEM. In February 2013, the Commission established a joint trust fund with Santek.

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, 2012, the Commission has accrued any estimated litigation costs in the accompanying statement of net assets.

NOTE S - CONTINGENT LIABILITIES AND LITIGATION - Continued

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

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

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS

In December 2009, the GASB issued Statement No. 58, *Accounting and Financial Reporting for Chapter 9 Bankruptcies*, effective for the Commission as of September 30, 2010. This statement provides accounting and financial reporting guidance for governments that have petitioned for protection from creditors by filing for bankruptcy under Chapter 9 of the United States Bankruptcy Code. Until a Plan of Adjustment is approved by the court, the Commission does not believe any changes to the financial statements are required. The adoption of this statement did not have a material impact on the Commission's financial statements.

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

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

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

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

In 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.

NOTE T - SIGNIFICANT NEW ACCOUNTING PRONOUNCEMENTS - Continued

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

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, 2015. 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.

NOTE U - UNCERTAINTIES

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

As a result of these events, debt service on the System debt, taking into account the accelerated payments due to the liquidity banks, has exceeded the net revenues of the System. As of September 30, 2012, the Commission continued to operate the System, collect revenues and plan and carry out needed maintenance and capital improvements.

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

The bond insurers have paid a portion of the System's debt service pursuant to policies issued in connection with the System's debt, and such policies provide for the System's reimbursement of the payments made by the bond insurers. Because the System's debt is secured by a pledge of only the net revenues of the System, the Commission is allowed by the governing documents, consistent with applicable law, to pay all operating expenses prior to the payment of debt service. Because of the nonrecourse nature of the System debt, holders of the System debt have no claim against the Commission's General Fund or non-System revenues.

Beginning in fiscal 2009, the Commission engaged in negotiations with various holders of sewer warrants to refinance or restructure the System debt without recourse to a Chapter 9 filing. During 2009 and through September 2010, the Commission continued discussions with various holders of System debt but was unable to reach resolution. On September 22, 2010, the Trustee of the Sewer warrants obtained appointment of a Receiver over the System. See Note S for a discussion of the related litigation. The Receiver had authority with respect to factors that may affect a refinancing or restructure of the System debt, such as System operations and revenues.

Subsequent to the appointment of the Receiver, certain holders of System debt expressed a desire to delay substantive negotiations until they could assess the effect of the receivership on net System revenues. On June 27, 2011, the Receiver and the State Finance Director entered into a 30-day standstill agreement to facilitate negotiations with various holders of the System debt, which was subsequently extended to August 4, 2011, and again to August 12, 2011.

NOTE U - UNCERTAINTIES - Continued

On August 12, 2011, the Receiver and the Finance Director agreed to a further extension of the standstill agreement until September 16, 2011. Pursuant to their agreement, so long as the Commission did not file a petition under Chapter 9, among other things, the Receiver agreed to delay a planned System rate increase for the same period and to give the Commission 10 days' notice of his intent to terminate the forbearance period. On September 16, 2011, the Commission approved a nonbinding term sheet for the restructuring of the System debt. The term sheet was countersigned by the Receiver, who presented himself to the Commission as an intermediary for holders of the vast majority of the System's debt. After more than seven weeks of negotiation, the Commission was unable to obtain the agreement of the majority-holders of the System's debt to enter into a definitive restructuring agreement implementing the economic concessions contemplated in the term sheet.

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

On November 9, 2011, the Commission approved a resolution authorizing the filing of a petition in the name of Jefferson County for relief under Chapter 9 of the Bankruptcy Code. Such petition for relief was filed on November 9, 2011, in the U.S. Bankruptcy Court for the Northern District of Alabama, Southern Division (the Bankruptcy Court) and is styled *In re: Jefferson County, Alabama*, Case number 11-05736-9 (the Bankruptcy Case). Upon the commencement of the Bankruptcy Case, the automatic stay provisions imposed by the Bankruptcy Code discontinued the Receiver's authority over the System and restored control of the System to the Commission. The Trustee for the sewer warrants, along with other parties, has filed motions in the Bankruptcy Case requesting relief from the automatic stay. See Note S for a discussion of the Bankruptcy Case and related litigation. The Commission is currently negotiating with certain creditors to restructure the System's nonrecourse obligations through a Chapter 9 plan of adjustment. As a result of these negotiations, the Commission has filed with the Bankruptcy Court its Plan of Adjustment. See Note W for further discussion.

The effectiveness of the Plan of Adjustment is subject to several conditions, including its confirmation and approval by the Bankruptcy Court. The Bankruptcy Court has scheduled a hearing to begin on November 12, 2013, at which time the Bankruptcy Court is expected to hear and consider whether to confirm the Plan of Adjustment in accordance with the provisions of Chapter 9 of the Bankruptcy Code. It is possible that the Plan of Adjustment may not be confirmed or, if confirmed, that other conditions to the Plan of Adjustment's effectiveness may not be satisfied. It is also possible that the Plan of Adjustment may be amended, revised or withdrawn by the Commission prior to the November 12, 2013, confirmation hearing. The final content of the Plan of adjustment and the outcome of the confirmation hearing cannot be assured at this time.

NOTE U - UNCERTAINTIES - Continued

There are also uncertainties relating to the Commission's general fund. On December 1, 2010, the Circuit Court of Jefferson County ruled that Act 2009-811 of the Alabama Legislature, pursuant to which the Commission had levied an occupational and business license tax, was unconstitutional. Prior to the commencement of the Bankruptcy Case, the Supreme Court of Alabama affirmed the ruling that the statute was unconstitutional but did not decide the question whether the Commission would be required to refund the taxes collected prior to December 1, 2010. On November 16, 2012, the Supreme Court of Alabama ruled that the Commission was not required to refund taxes collected prior to December 1, 2010. The Bankruptcy Court subsequently modified the automatic stay under Chapter 9 of the Bankruptcy Code to allow the plaintiffs in the case to file a petition for writ of certiorari to the Supreme Court of the United States. No writ of certiorari was filed. See Note S for a discussion of the related litigation.

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

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

NOTE V - SUBSEQUENT EVENTS

During 2011, the Commission authorized the sale of its nursing home facility and licensed beds. Subsequent to September 30, 2012, the Commission executed the sale of 238 licensed beds to an unrelated Alabama entity for $8,300,000 and the sale of its real property to an unrelated entity for $2,950,000. The net book value of its nursing home capital assets is $2,563,000 at September 30, 2012. An impairment loss of $4,661,000 was recognized in 2011 due to the decline in service utility of the nursing home capital assets.

NOTE V - SUBSEQUENT EVENTS - Continued

On August 28, 2012, the Commission voted to close the inpatient care unit at Cooper Green Mercy Hospital. The Commission continues to work through the details to provide cost-effective health care to the indigent residents of Jefferson County. The Commission is currently evaluating the potential impairment of the hospital's capital assets, which have a net book value of $36,050,000 at September 30, 2012.

BUSINESS-TYPE ACTIVITIES (amounts in thousands)

Material Event Notices

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

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."

NOTE V - SUBSEQUENT EVENTS - Continued

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

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). 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 and 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 million.

NOTE V - SUBSEQUENT EVENTS - 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, 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, 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. 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 requires 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. 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 Proposed Restructuring.

NOTE V - SUBSEQUENT EVENTS - Continued

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). The Closing Agreement allows a two-year period to implement the proposed Plan.

Reduction in Restricted Cash Balances

Payments have been made from restricted cash accounts held by the Trustee subsequent to year end for sewer improvements or debt service on the warrants (principal or interest). Such restricted cash accounts had a balance of $173,511 as of September 30, 2012.

Trustee's Suspension of Debt Service Payments on Sewer Warrants

The Trustee has 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 has been informed that certain holders of Bank Warrants are not in agreement with the planned distributions which ignore existing principal payment defaults on the Bank Warrants and any required mandatory sinking fund redemption requirements. In addition, disagreements exist 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. 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 until further notice.

NOTE V - SUBSEQUENT EVENTS - Continued

GOVERNMENTAL ACTIVITIES (amounts in thousands)

Material Event Notices

***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 V - SUBSEQUENT EVENTS - 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).

***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 (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.

NOTE V - SUBSEQUENT EVENTS - Continued

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.

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 Proposed Restructuring.

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 expects to suspend further debt service payments on these warrants until such debt service can be restructured under the Commission's Plan of Adjustment under Chapter 9.

NOTE V - SUBSEQUENT EVENTS - Continued

Lease Revenue Warrants, Series 2006

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

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

Notices of Default - GO Series 2003-A and 2004-A Warrants
U.S. Bank National Association (successor Paying Agent) provided written Notices of Events of Default dated October 4, 2012 and April 2, 2013, for the GO Series 2003-A and 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 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 the Trustee of such intent to make the payments due. National paid principal and interest amounts due totaling $2,965 and $4,539, respectively, on behalf of the Commission. The Paying Agent distributed all of the money received from the Bond Insurer prior to the date of the Notices.

Notices of Default - LO Series 2004-A, 2005-A and 2005-B
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 and 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 (as discussed in Note J).

NOTE V - SUBSEQUENT EVENTS - Continued

In a Notice to Holders dated March 21, 2013, U.S. Bank, as Trustee, states that the Commission paid $21,295 of Excess Proceeds to the Trustee for deposit to the Redemption Account and that such funds were used to redeem LO Series 2005-B Warrants as an Excess Tax Proceeds Mandatory Redemption, in accordance with the Indenture.

However, the Trustee was also informed that the Commission has retained and holds $3,757 in the Revenue Account that was required to be delivered to the Trustee on December 15, 2012. The Commission has indicated to the Trustee that it believes that the retention of such excess funds in the Revenue Account is an important way to assure that the Commission has sufficient liquidity in the Revenue during the year to make regularly scheduled payments for the School Warrants regardless of potential short-term fluctuations in the collection of Tax Revenue Proceeds.

This retention of funds constitutes a default; however, the Trustee has not sent a demand notice to the Commission to cure such default in a 30-day period. The Trustee has reserved the right to do so but has no current intentions to do so unless circumstances change or it is directed by the warrant holders to do so.

Events of Default - Standby Warrant Purchase Agreement - LO Series 2005-B
The Commission also received a Notice of Default under Standby Warrant Purchase Agreement dated May 6, 2010, from Depfa Bank PLC (Depfa Bank), as discussed further in Note J. The Commission entered into a Plan Support Agreement dated February 11, 2013, with Depfa Bank. See the February 15, 2013, Material Event Notice for discussion of the agreement.

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

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).

The Commission negotiated, prepared and authorized for filing that certain *Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated July 29, 2013)* (the Plan of Adjustment), as well as the accompanying *Disclosure Statement Regarding Chapter 9 Plan of Adjustment for Jefferson County, Alabama (Dated July 29, 2013)* (the Disclosure Statement). The Plan of Adjustment sets forth the manner in which all claims (herein Claims) in the Bankruptcy Case will be treated if the Plan of Adjustment is confirmed by the Bankruptcy Court and becomes effective.

NOTE W - BANKRUPTCY AND PROPOSED RESTRUCTURING - Continued

The Disclosure Statement describes the Plan of Adjustment, the Commission's current and future operations, the proposed adjustment of the Commission's indebtedness, risk factors associated with confirmation of the Plan of Adjustment and other related matters. The Disclosure Statement was approved by an order entered by the Bankruptcy Court on August 7, 2013, which order found that the Disclosure Statement satisfied the requirements of Section 1125 of the Bankruptcy Code.

The effectiveness of the Plan of Adjustment is subject to several conditions, including its confirmation and approval by the Bankruptcy Court. The Plan of Adjustment has not yet been confirmed by the Bankruptcy Court. The Bankruptcy Court has scheduled the hearing on the confirmation of the Plan of Adjustment to begin on November 12, 2013 (the Confirmation Hearing). The Plan of Adjustment remains subject to modification or withdrawal by the Commission at any time.

The Plan of Adjustment and Disclosure Statement are both public documents and available in their entirety for review on the Commission's website. For a complete understanding of the Plan of Adjustment and its terms, the Plan of Adjustment (including all exhibits and appendices attached thereto) should be reviewed. Following is a brief summary of the Plan of Adjustment.

Settlement of Sewer Warrant Claims and Related Obligations
The Plan of Adjustment is 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. Those compromises and settlements were documented in five plan support agreements entered into among the Commission and these creditors (the Sewer Plan Support Agreements). Through the Plan of Adjustment, if confirmed, the Commission would realize 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 $70,000 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 contemplates that the Commission will issue new sewer warrants (the New Sewer Warrants) in an amount sufficient to make approximately $1,835,000 of distributions to the holders of Sewer Warrants and related claims.

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

NOTE W - BANKRUPTCY AND PROPOSED RESTRUCTURING - Continued

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 reflects 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 will 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.

Certain Series 2003-A and Series 2004-A General Obligation Debt Claims. The GO Series 2003-A and GO Series 2004-A Warrants are 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 have been paid by National pursuant to the municipal bond insurance policies.

The Plan of Adjustment reflects the terms of a plan support agreement negotiated between National and the Commission, which involves the settlement and compromise of numerous potential claim allowance and priority disputes between National and the Commission. Specifically, the Plan of Adjustment provides that National will 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 provides that the Commission will repay approximately $8.5 million of interest that National paid to holders of these warrants during the Bankruptcy Case in three payments in 2025, 2026 and 2027 - these obligations will be noninterest bearing and are 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 provides for a compromise and settlement of National's Claim for its fees and expenses, which the Commission has been informed could exceed $4 million, through a single payment of $1.5 million to National on the effective date of the Plan of Adjustment.

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.

NOTE W - BANKRUPTCY AND PROPOSED RESTRUCTURING - Continued

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.

<u>Bessemer Lease Claims</u>: As discussed in Note J, 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 million 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. Under the Plan of Adjustment, in full, final and complete settlement, satisfaction, release and exchange of all Claims relating to the Bessemer Lease, the Commission agrees to recognize and perform all of its obligations under the New Bessemer Lease.

<u>Other Unsecured Claims</u>. The Plan of Adjustment provides that general unsecured claims against the Commission arising prior to the Petition Date will receive a pro rata distribution of a $5,000 pool established for their benefit by the Commission under the Plan of Adjustment. Upon the Plan of Adjustment becoming effective, the Commission and its property will be discharged and released of and from the General Unsecured Claims.

NOTE W - BANKRUPTCY AND PROPOSED RESTRUCTURING - Continued

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

The Plan of Adjustment provides that rights afforded in the Plan and the treatment of all claims by the Plan of Adjustment shall 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.

Except as otherwise provided in the Plan of Adjustment or the order confirming the Plan of Adjustment (the Confirmation Order), on the Effective Date, (a) the Commission and its property will 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 provides for the exchange of numerous releases, including the release of the Commission, as well as members of the Commission, employees of Jefferson County and other representatives and affiliates of the County, of and from various claims and causes of action.

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, 2012

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 101,311	$ 101,311	$ 97,758	$ 97,758
Licenses and permits	7,766	7,766	7,610	7,610
Intergovernmental	37,259	34,504	31,606	31,606
Charges for services, net	30,714	30,784	31,881	31,881
Miscellaneous	709	709	4,492	4,492
Interest and investment income	363	363	242	242
	178,122	175,437	173,589	173,589
Expenditures				
Current:				
General government	143,984	145,948	104,372	104,372
Public safety	51,630	51,630	59,224	59,224
Highway and roads	22,194	22,264	14,792	14,792
Education - other	-	-	1	1
Capital outlay	-	-	306	306
Indirect expenses	-	-	(7,071)	(7,071)
Debt service:				
Principal retirement	-	-	54	54
Interest and fiscal charges	-	-	38	38
	217,808	219,842	171,716	171,716
Excess of Revenues over Expenditures	(39,686)	(44,405)	1,873	1,873
Other Financing Sources (Uses)				
Sale of capital assets, net	-	-	400	400
Transfers in	-	-	15,456	15,456
Transfers out	-	-	(9,042)	(9,042)
	-	-	6,814	6,814
Net Changes in Fund Balances	(39,686)	(44,405)	8,687	8,687
Fund Balances - beginning of year	79,379	79,379	79,379	79,379
Fund Balances - end of year	$ 39,693	$ 34,974	$ 88,066	$ 88,066

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, 2012

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ -	$ -	$ 93,836	$ 93,836
Interest and investment income	78,916	78,916	97	97
	78,916	78,916	93,933	93,933
Expenditures				
General government	60	170	153	153
Debt service:				
Principal retirement	32,515	32,515	32,515	32,515
Interest and fiscal charges	46,206	46,232	39,068	39,068
	78,781	78,917	71,736	71,736
Net Changes in Fund Balances	135	(1)	22,197	22,197
Fund Balances - beginning of year	150,308	150,308	150,308	150,308
Fund Balances - end of year	$ 150,443	$ 150,307	$ 172,505	$ 172,505

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, 2012

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 41,859	$ 41,859	$ 46,020	$ 46,020
Miscellaneous	-	-	7	7
Interest and investment income	-	-	2	2
	41,859	41,859	46,029	46,029
Expenditures				
Indirect expenses	-	-	-	-
Excess of Revenues over Expenditures	41,859	41,859	46,029	46,029
Other Financing Sources (Uses)				
Transfers out	-	-	(46,262)	(46,262)
Net Changes in Fund Balances	41,859	41,859	(233)	(233)
Fund Balances - beginning of year	9,436	9,436	9,436	9,436
Fund Balances - end of year	$ 51,295	$ 51,295	$ 9,203	$ 9,203

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, 2012

	(In Thousands)			
	Budgeted Amounts		Actual Amounts	Actual Amounts
	Original	Final	Budgetary Basis	GAAP Basis
Revenues				
Taxes	$ 40,931	$ 40,931	$ 41,916	$ 41,916
Intergovernmental	500	500	842	842
Interest and investment income	-	-	58	58
	41,431	41,431	42,816	42,816
Expenditures				
Indirect expenses	-	-	-	-
	-	-	-	-
Excess of Revenues over Expenditures	41,431	41,431	42,816	42,816
Other Financing Sources (Uses)				
Transfers out	-	-	(42,816)	(42,816)
	-	-	(42,816)	(42,816)
Net Changes in Fund Balances	41,431	41,431	-	-
Fund Balances - beginning of year	-	-	-	-
Fund Balances - end of year	$ 41,431	$ 41,431	$ -	$ -

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
SCHEDULE OF FUNDING PROGRESS -
DEFINED BENEFIT PENSION PLAN AND OTHER
POSTEMPLOYMENT BENEFITS PLAN
(UNAUDITED)
SEPTEMBER 30, 2012

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]
10/01/12	$ 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%)
10/01/10	965,690	885,063	(80,627)	109.11%	152,923	(52.7%)

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]
09/30/12	$ -	$ 80,163	$ 80,163	0%	$ 118,896	67.4%
09/30/11	-	80,163	80,163	0%	138,971	57.7%
09/30/10	-	90,809	90,809	0%	152,923	59.4%
09/30/09	-	90,809	90,809	0%	158,254	57.4%
09/30/08	-	68,052	68,052	0%	163,182	41.7%

See independent auditors' report.

SUPPLEMENTARY INFORMATION

JEFFERSON COUNTY COMMISSION
COMBINING BALANCE SHEET -
NONMAJOR GOVERNMENTAL FUNDS
SEPTEMBER 30, 2012
(IN THOUSANDS)

ASSETS	Community Development Fund	Debt Service Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Cash and investments	$ -	$ -	$ 48,831	$ -	$ 2,137	$ 41	$ 437	$ 51,446
Accounts receivable, net	1	-	4	-	-	-	63	68
Due from (to) other governments	-	5,389	-	-	-	105	-	5,494
Loans receivable, net	880	-	-	-	-	114	-	994
Restricted assets	-	-	-	19,637	-	-	-	19,637
Advances due from (to) other funds	(139)	16,800	-	-	-	-	-	16,661
	$ 742	$ 22,189	$ 48,835	$ 19,637	$ 2,137	$ 260	$ 500	$ 94,300
LIABILITIES AND FUND BALANCES								
Liabilities								
Accounts payable	$ 301	$ -	$ 1,201	$ 204	$ 530	$ 153	$ 341	$ 2,730
Deferred/unearned revenue	283	-			-	105	-	388
Accrued wages and benefits	19	-	-	-	-	2	12	33
Accrued interest	-	11,125	-	1,978	-	-	-	13,103
Debt service costs	-	7,894	-	-	-	-	-	7,894
Retainage payable	-	-	75	-	-	-	-	75
Total Liabilities	603	19,019	1,276	2,182	530	260	353	24,223
Fund Balances (Deficit)								
Nonspendable	-	16,800	-	-	-	-	-	16,800
Restricted	139	5,389	-	19,637	-	-	-	25,165
Committed	1,191	100	1,205	549	3,565	179	8,679	15,468
Assigned	-	-	46,354	-	-	-	147	46,501
Unassigned	(1,191)	(19,119)	-	(2,731)	(1,958)	(179)	(8,679)	(33,857)
	139	3,170	47,559	17,455	1,607	-	147	70,077
	$ 742	$ 22,189	$ 48,835	$ 19,637	$ 2,137	$ 260	$ 500	$ 94,300

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, 2012
(IN THOUSANDS)

	Community Development Fund	Debt Service Fund	Capital Improvements Fund	Public Building Authority	Road Construction Fund	Home Grant Fund	Emergency Management Fund	Total Nonmajor Governmental Funds
Revenues								
Intergovernmental	$ 3,786	$ 5,389	$ -	$ -	$ 1,412	$ 1,204	$ 1,107	$ 12,898
Charges for services, net	-	-	-	-	-	-	765	765
Miscellaneous	-	-	-	-	17	-	912	929
Interest and investment income	-	-	21	922	2	47	-	992
	3,786	5,389	21	922	1,431	1,251	2,784	15,584
Expenditures								
Current:								
General government	4,066	-	45	330	5	1,375	-	5,821
Public safety	-	-	15	-	-	-	2,375	2,390
Health and welfare	7	-	-	-	-	-	-	7
Capital outlay	-	-	3,013	1,335	1,866	-	-	6,214
Indirect expenses	-	-	-	-	-	-	135	135
Debt service:								
Principal retirement	-	-	-	4,130	-	-	-	4,130
Interest and fiscal charges	-	10,495	-	4,082	-	-	-	14,577
		-						
	4,073	10,495	3,073	9,877	1,871	1,375	2,510	33,274
Excess (Deficiency) of Revenues over Expenditures	(287)	(5,106)	(3,052)	(8,955)	(440)	(124)	274	(17,690)
Other Financing Sources (Uses)								
Sale of capital assets	-	-	1,786	-	-	-	-	1,786
Legal and insurance settlements	-	-	8,475	-	-	-	-	8,475
Transfers in	-	1,135	24,774	1,515	-	26	4,029	31,479
	-	1,135	35,035	1,515	-	26	4,029	41,740
Net Changes in Fund Balances	(287)	(3,971)	31,983	(7,440)	(440)	(98)	4,303	24,050
Fund Balances - beginning of year, as previously reported	426	7,141	15,576	24,895	2,047	98	596	50,779
Prior Period Adjustment	-	-	-	-	-	-	(4,752)	(4,752)
Fund Balances - beginning of year, as restated	426	7,141	15,576	24,895	2,047	98	(4,156)	46,027
Fund Balances - end of year	$ 139	$ 3,170	$ 47,559	$ 17,455	$ 1,607	$ -	$ 147	$ 70,077

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
SEPTEMBER 30, 2012
(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	$ 1,864	$ 36	$ 3,074	$ 4,974
Patient accounts receivable, net	-	534	-	534
Accounts receivable, net	219	-	61	280
Due to other governments	-	-	(1,300)	(1,300)
Inventories	2	-	-	2
Deferred charges - issuance costs	-	-	1	1
Total Current Assets	2,085	570	1,836	4,491
Noncurrent Assets				
Restricted assets	2,440	-	423	2,863
Advances due from (to) other funds	(16,800)	(2,267)	(15,394)	(34,461)
Capital assets:				
Depreciable assets, net	23,287	2,563	3,979	29,829
Nondepreciable assets	7,907	-	12,557	20,464
	16,834	296	1,565	18,695
	$ 18,919	$ 866	$ 3,401	$ 23,186

See independent auditors' report.

LIABILITIES AND NET ASSETS	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Current Liabilities				
Accounts payable	$ -	$ 242	$ 16	$ 258
Accrued wages and benefits	1	52	-	53
Accrued interest	-	-	1	1
Estimated claims liability	-	66	-	66
Estimated liability for compensated absences	-	85	-	85
Warrants payable	-	-	415	415
Add: Unamortized premiums (discounts)	-	-	(1)	(1)
Less: Deferred loss on refunding	-	-	(2)	(2)
	-	-	412	412
Total Current Liabilities	1	445	429	875
Noncurrent Liabilities				
Estimated liability for landfill closure and postclosure care costs	10,369	-	-	10,369
Estimated claims liability	-	108	-	108
Estimated liability for other postemployment benefits	-	219	-	219
Estimated liability for compensated absences	-	94	-	94
Total Liabilities	10,370	866	429	11,665
Net Assets (Deficit)				
Invested in capital assets, net of related debt	31,194	2,563	(570)	33,187
Restricted for:				
Debt service	-	-	423	423
Closure and postclosure care	2,440	-	-	2,440
Unrestricted	(25,085)	(2,563)	3,119	(24,529)
	$ 8,549	$ -	$ 2,972	$ 11,521

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(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	$ -	$ 3,796	$ -	$ 3,796
Other operating revenue	1,259	9	91	1,359
	1,259	3,805	91	5,155
Operating Expenses				
Salaries	-	2,495	200	2,695
Employee benefits and payroll taxes	94	787	16	897
Materials and supplies	-	543	-	543
Utilities	-	771	25	796
Outside services	59	1,454	109	1,622
Office expenses	-	38	120	158
Depreciation	1,861	378	291	2,530
Closure and postclosure care	85	-	-	85
Indirect expenses	10	-	-	10
Miscellaneous	-	837	7	844
	2,109	7,303	768	10,180
Operating Loss	(850)	(3,498)	(677)	(5,025)
Nonoperating Revenues (Expenses)				
Interest expense, net	(78)	(1)	(112)	(191)
Interest revenue	-	-	7	7
Amortization of warrant related costs	4	-	(14)	(10)
Loss on impairment of capital assets	-	-	-	-
Gain (loss) on sale or retirement of capital assets	78	(9)	-	69
	4	(10)	(119)	(125)
Operating Transfers				
Transfers in	-	793	-	793
Change in Net Assets	(846)	(2,715)	(796)	(4,357)
Net Assets - beginning of year	9,395	2,715	3,768	15,878
Net Assets - end of year	$ 8,549	$ -	$ 2,972	$ 11,521

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(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	$ -	$ 4,207	$ 91	$ 4,298
Cash payments to employees	(93)	(3,340)	(215)	(3,648)
Cash payments for goods and services	(66)	(3,244)	(241)	(3,551)
Other receipts and payments, net	1,595	1,334	69	2,998
Net Cash Provided (Used) by Operating Activities	1,436	(1,043)	(296)	97
Cash Flows from Noncapital Financing Activities				
Operating transfers in	-	793	-	793
Net Cash Provided by Noncapital Financing Activities	-	793	-	793
Cash Flows from Capital and Related Financing Activities				
Acquisition of capital assets	-	-	(16)	(16)
Sale of capital assets	285	-	-	285
Interest paid	(78)	-	(114)	(192)
Principal payments on warrants	-	-	(1,435)	(1,435)
Net Cash Provided (Used) by Capital and Related Financing Activities	207	-	(1,565)	(1,358)
Cash Flows from Investing Activities				
Interest received	-	-	7	7
Miscellaneous	4	(2)	-	2
Net Cash Provided by Investing Activities	4	(2)	7	9
Change in Cash and Investments	1,647	(252)	(1,854)	(459)
Cash and Investments - beginning of year	2,657	288	5,351	8,296
Cash and Investments - end of year	$ 4,304	$ 36	$ 3,497	$ 7,837
Displayed As				
Cash and investments	$ 1,864	$ 36	$ 3,074	$ 4,974
Restricted assets - noncurrent cash and investments	2,440	-	423	2,863
	$ 4,304	$ 36	$ 3,497	$ 7,837

JEFFERSON COUNTY COMMISSION
COMBINING STATEMENT OF CASH FLOWS -
NONMAJOR ENTERPRISE FUNDS
FOR THE YEAR ENDED SEPTEMBER 30, 2012
(IN THOUSANDS)
(Continued)

	Landfill Operations Fund	Jefferson Rehabilitation and Health Center Fund	Jefferson County Economic and Industrial Development Authority	Total Nonmajor Enterprise Funds
Reconciliation of Operating Loss to Net Cash Provided (Used) by Operating Activities				
Operating loss	$ (850)	$ (3,498)	$ (677)	$ (5,025)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:				
Depreciation expense	1,861	378	291	2,530
Provision for bad debts	-	492	-	492
Change in patient accounts receivable	-	(81)	-	(81)
Change in accounts receivable	(111)	-	-	(111)
Change in inventories	3	-	-	3
Change in advances due from (to) other funds	-	2,267	77	2,344
Change in accounts payable	-	(438)	13	(425)
Change in accrued wages and benefits	1	(14)	-	(13)
Change in estimated claims liability	-	(105)	-	(105)
Change in estimated liability for compensated absences	-	(117)	-	(117)
Change in estimated liability for landfill closure and postclosure care costs	532	-	-	532
Change in estimated liability for other postemployment benefits	-	73	-	73
	2,286	2,455	381	5,122
Net Cash Provided (Used) by Operating Activities	$ 1,436	$ (1,043)	$ (296)	$ 97
SUPPLEMENTAL DISCLOSURE OF NONCASH INVESTING, CAPITAL AND FINANCING ACTIVITIES				
Gain (loss) on sale or retirement of capital assets	$ 78	$ (9)	$ -	$ 69

See independent auditors' report.

JEFFERSON COUNTY COMMISSION
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES -
AGENCY FUND
SEPTEMBER 30, 2012
(IN THOUSANDS)

	Balance October 1, 2011	Additions	Deductions	Balance September 30, 2012
City of Birmingham Revolving Loan Fund				
Assets				
Cash and investments	$ 832	$ 62	$ (7)	$ 887
Loans receivable, net	221	-	(55)	166
	$ 1,053	$ 62	$ (62)	$ 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, 2012

Commission Members As of October 7, 2013			**Term Expires**
Hon. David Carrington	President	Suite 230 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. George T. Bowman	Member	Suite 240 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. Sandra Little Brown	Member	Suite 250 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. T. Joe Knight	Member	Suite 220 Jefferson County Courthouse Birmingham, AL 35263	2014
Hon. James A. Stephens	Member	Suite 210 Jefferson County Courthouse Birmingham, AL 35263	2014

Administrative Personnel As of October 7, 2013		
George J. Tablack	Chief Financial Officer	Suite 810 Jefferson County Courthouse Birmingham, AL 35263
Carol Sue Nelson	County Attorney	Suite 280 Jefferson County Courthouse Birmingham, AL 35263