

**BIRMINGHAM-JEFFERSON COUNTY
TRANSIT AUTHORITY**

FINANCIAL REPORT

SEPTEMBER 30, 2014

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

FINANCIAL REPORT SEPTEMBER 30, 2014

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INDEPENDENT AUDITOR'S REPORT

To the Board of Directors
Birmingham-Jefferson County Transit Authority
Birmingham, Alabama

Report on the Financial Statements

We have audited the accompanying financial statements of Birmingham-Jefferson County Transit Authority as of and for the years ended September 30, 2014 and 2013, and the related notes to the financial statements, which collectively comprise Birmingham-Jefferson County Transit Authority's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Birmingham-Jefferson County Transit Authority as of September 30, 2014 and 2013, and the changes in its financial position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis (on pages 3 through 8) and the Schedule of Funded Status and Funding Progress (on page 22) 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 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.

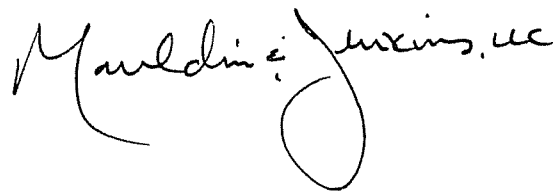
Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Birmingham-Jefferson County Transit Authority's basic financial statements. The accompanying schedule of expenditures of federal awards, as required by Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated January 16, 2015, on our consideration of Birmingham-Jefferson County Transit Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering Birmingham-Jefferson County Transit Authority's internal control over financial reporting and compliance.

Birmingham, Alabama
January 16, 2015



BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

MANAGEMENT'S DISCUSSION AND ANALYSIS

This Management's Discussion and Analysis ("MD&A") of the Birmingham-Jefferson County Transit Authority (the "Authority" or "BJCTA") provides an overview of the major financial activities affecting the operations of the Authority. This overview encompasses the financial performance and financial statements of the Authority for the years ended September 30, 2014 and 2013. The information contained in this MD&A is prepared by management and should be considered in conjunction with the information contained in the Independent Auditor's Report and notes to the financial statements. Following this MD&A are the basic financial statements of the Authority, together with the notes, which are essential to a full understanding of the data contained in the financial statements.

The Authority was incorporated on March 28, 1972, as a non-profit corporation under the provision of the Code of Alabama Act No. 993, enacted at the 1971 Regular Session of the Legislature of Alabama. The Authority was created to provide public transportation services to various metropolitan areas of Jefferson County, Alabama, principally the City of Birmingham. The Authority's Board of Directors is comprised of nine appointed members representing the agencies within Jefferson County that provide the largest amount of funding for the Authority. The Authority operates under the brand name of "Max".

The Authority provides Fixed-Route and paratransit services within Jefferson County. Much of this service is provided within the City of Birmingham with operations reaching into other selected communities within Jefferson County. The Authority's system is primarily a Hub and Spoke network, with its routes being coordinated from the main passenger transfer terminal otherwise known as Central Station, located in downtown Birmingham. The Authority accomplished various key objectives during the 2014 fiscal year and continues to be committed to its vision and to its motto of "One Team-One Goal", which includes all 300 plus employees who are dedicated and willing to provide excellent public transit services within the region. The Max Team wants to insure that the transit system is a part of the "Education to Economics" journey.

Authority Activities and Highlights

Key activities and highlights for fiscal year 2014 are as follows:

- During fiscal year 2014, the Max Staff relocated its administrative offices to a temporary site, to prepare for the Intermodal Center construction.
- During this period the Max staff worked closely with the architect and contractor to complete the temporary Central Station site; and relocated its Customer Services and Passenger to a temporary site.
- 2014 Strategic Planning, Leadership Development and Board/Management Retreat; the Max Board of Directors and Senior Staff revised its Mission Statement. ***Our Mission is to "provide safe, reliable, and excellent transit and other mobility services that contribute to the region's economy, vitality, and sustainability".***
- Max implemented the Hydrogen Fuel Cell bus pilot project, which is being rotated on every route that can accommodate it.
- Max had the opportunity to host the DOT Secretary Anthony Foxx in April of 2014 while he was touring various sites.
- Max had a very successful legislative year.
- During 2014, Max hired a Chief of Staff and filled several key positions.
- Max is working closely with the City of Birmingham to bring the Intermodal Center project to completion. The old Central Station has been razed to prepare for the new Center.
- Max implemented Google Transit and provided training to passengers.
- Max upgraded its computer servers and purchased seven (7) new commuter buses.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Highlights

Key financial highlights for fiscal year 2014 are as follows:

- The Authority's net position (amount that assets exceeded liabilities) was \$36,065,203 and \$32,660,008 at September 30, 2014 and 2013, respectively. Of these amounts, \$26,795,046 and \$22,820,999, respectively, represented the Authority's net investment in capital assets.
- The Authority's total net position increased \$3,405,195 during the year ended September 30, 2014 and increased \$7,692,005 during the year ended September 30, 2013. These net changes are further reflected in the Authority's statements of revenues, expenses, and change in net position.
- The Authority received operating grants through federal and state agencies, and operating assistance through local municipalities and agencies in the amount of \$29,230,381 and \$31,271,186 during the years ended September 30, 2014 and 2013, respectively. The Authority received federal capital contribution grants totaling \$5,373,410 and \$6,779,774 during the years ended September 30, 2014 and 2013, respectively.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Authority's basic financial statements. The notes to the financial statements contain more detail on some of the information presented in the financial statements. The financial statements of the Authority report information about the Authority using accounting methods similar to those used by private sector companies. These statements offer short-and-long term financial information about its activities. The Statement of Net Position presents information on all of the Authority's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating. The Statement of Net Position can be found on page 9 of this report.

The Statement of Revenues, Expenses and Changes in Net Position presents information showing how the Authority's net position changed during the years ended September 30, 2014 and 2013. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus revenues and expenses are recorded in this statement for some items that will only result in cash flows in future fiscal periods (for example, earned but unused compensated absences, certain grants, etc.). The Statement of Revenues, Expenses and Changes in Net Position can be found on page 10 of this report.

The notes to the financial statements provide additional information that is essential to a full understanding of the data provided within the financial statements. The notes to the financial statements can be found on pages 12 through 21 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements

Net Position: The following table summarizes the net position at September 30, 2014, 2013 and 2012.

	2014	2013	2012
Current assets	\$ 22,882,463	\$ 22,782,091	\$ 21,234,681
Capital assets	26,795,046	22,820,999	16,800,507
Other long-term assets	8,611	7,000	7,000
Total assets	49,686,120	45,610,090	38,042,188
Current liabilities	1,553,638	1,957,497	2,551,858
Long-term liabilities	12,067,279	10,992,585	10,522,327
Total liabilities	13,620,917	12,950,082	13,074,185
Net position:			
Net investment in capital assets	26,795,046	22,820,999	16,800,507
Unrestricted	9,270,157	9,839,009	8,167,496
Total net position	\$ 36,065,203	\$ 32,660,008	\$ 24,968,003

The Authority's total current assets increased by \$100,372 and \$1,547,410 during the years ended September 30, 2014 and 2013, respectively. Elements to consider related to these changes include:

- The Authority's unrestricted cash and cash equivalents increased 6,803,279, from \$4,552,997 to \$11,356,276 during the year ended September 30, 2014. This increase was primarily funded by receipts of federal funds which resulted in a decrease in grants receivable of \$7,488,710 during this time period.

The Authority's capital and other long-term assets increased by \$3,975,658 during the year ended September 30, 2014. Elements to consider related to these changes include:

- In fiscal year 2014, the Authority purchased capital assets in the amount of \$7,176,306, while incurring depreciation on capital assets in the amount of \$3,138,671, which contributed to the \$3,975,658 net increase in capital and other long-term assets. The increase was primarily due to the Authority approving the purchase of new buses for its fleet.

The Authority's current liabilities decreased by \$403,859 during the year ended September 30, 2014. Elements to consider related to these changes include:

- Accounts payable decreased from \$1,079,617 to \$591,901 during the year ended September 30, 2014.

The Authority's long-term liabilities increased by \$1,074,694 during the year ended September 30, 2014. This increase was primarily the result of the increase in the net pension liability which is more fully described and disclosed in Note 7 to the financial statements.

The Authority's net position increased by \$3,405,195 and \$7,692,005 during the years ended September 30, 2014 and 2013, respectively. These changes are primarily attributed to the fluctuations of operating expenses and operating and capital grants received by the Authority as depicted in the table on the next page. In addition, during the year ended September 30, 2014, the Authority began to capitalize its inventory of parts, oil and lubricants on hand. Prior to fiscal year 2014, the Authority was expensing these items when purchased. The change resulted in a one-time credit to unrestricted net position of \$859,628 for the initial adoption as of the beginning of fiscal year 2014. Note 5 to the financial statements provides more detail on the change in inventory accounting method.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements (Continued)

Changes in Net Position from Revenues and Expenses: The following table summarizes the changes in net position from revenues and expenses for the years ended September 30, 2014, 2013 and 2012.

	2014	2013	2012
Operating revenues:			
Passenger fares	\$ 2,503,384	\$ 2,504,837	\$ 2,373,968
Other	67,153	124,320	104,355
Operating revenues	<u>2,570,537</u>	<u>2,629,157</u>	<u>2,478,323</u>
Operating expenses:			
Salaries and benefits	19,606,002	17,875,837	17,257,281
Vehicle fuel, repairs, and maintenance	2,465,947	2,693,045	2,526,512
Other operating expenses	9,494,903	10,411,616	11,802,720
Depreciation	3,138,671	2,168,544	3,286,985
Operating expenses	<u>34,705,523</u>	<u>33,149,042</u>	<u>34,873,498</u>
Nonoperating revenues			
Operating grants – federal assistance	9,237,296	8,819,565	9,279,205
Operating grants – local assistance	14,389,246	14,187,409	13,171,322
Ad valorem tax revenue	5,603,839	8,264,212	6,064,697
Insurance proceeds	71,188	47,299	126,671
Gain (loss) on sale of capital assets	(607)	108,768	36,090
Interest income	6,181	4,863	6,869
Nonoperating revenues, net	<u>29,307,143</u>	<u>31,432,116</u>	<u>28,684,854</u>
Capital contributions – federal grants	<u>5,373,410</u>	<u>6,779,774</u>	<u>99,105</u>
Change in net position from revenues and expenses	<u>\$ 2,545,567</u>	<u>\$ 7,692,005</u>	<u>\$ (3,611,216)</u>

For the year ended September 30, 2014, operating revenues of the Authority were \$58,620 or 2.23% less than fiscal year 2013 revenues of \$2,629,157. Fiscal year 2013 operating revenues were 6.1% more than fiscal year 2012 revenues. The fluctuation in operating revenues is primarily a function of passenger fares and ridership.

For the year ended September 30, 2014, operating expenses increased \$1,556,481 or 4.70% to \$34,705,523. Fiscal year 2013 operating expenses decreased \$1,724,456 or 4.94% from fiscal year 2012. The 2014 increase in operating expenses is due primarily to various factors including a \$1,730,165 increase in salary and benefits from general payroll expenses and pension accruals and an increase of \$970,127 in depreciation expense from the purchase of new buses. These increases were partially offset by a \$1,673,536 decrease in equipment repair expenses due to the Authority beginning to capitalize equipment parts as inventory during fiscal year 2014 which is described more fully in Note 5 to the financial statements.

For the year ended September 30, 2014, nonoperating revenues of the Authority were \$29,307,143. Total fiscal year 2013 and 2012 nonoperating revenues were \$31,432,116 and \$28,684,854, respectively. These fluctuations are primarily due to the annual fluctuations in federal and local operating grants and assistance.

The changes in capital contributions – federal grants from year to year are directly related to the Authority's purchases of new capital assets from year to year.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budget Analysis

Over the course of the year, the Authority operated under an approved budget for the year ended September 30, 2014 by the Board of Directors. The budget was approved by the Board of Directors in April 2013 but was revised mid-year based upon actual performance year to date and projected performance for the remainder of the year. In September 2014, the Board approved the 12-month budget for the year ending September 30, 2015. Budgeted versus actual results do not include federal capital grant contributions and local capital revenues received for the acquisition of capital assets which is typically not included in BJCTA's annual budget. Also excluded from the annual budget process is pass-thru funding received by BJCTA for the benefit of other local transit service entities as well as depreciation expense on capital assets.

Below are highlights from each year's budget process.

- The BJCTA fiscal year 2014 budget continued to focus on cost control measures and maintaining a stable revenue base. The original 2014 budget before revision estimated revenue at \$28.9 million compared to actual revenues of \$28.7 million for the 2014 fiscal year (excluding capital revenue and pass-thru revenues). The 2014 budget before revision estimated operating expenses at \$28.9 million compared to actual expenses of \$31.6 million (excluding depreciation expense) for the 2014 fiscal year. The expense variance was due to higher than expected expenses in the areas salaries and benefits, security services, RPC data reporting expenses and insurance expenses. As noted above, these budgeted amounts were revised during the course of fiscal year 2014 to more closely compare to 2014 actual results.
- The BJCTA fiscal year 2015 budget reflects modest increases in staffing and capital expenses to ensure operational efficiencies, and to accomplish our transit mission. We are way behind in technological areas such as cameras on our vehicles, global positioning systems (GPS) and other innovations. We want to keep pace with the growth and development of the current and potential transit services. We will continue to develop an organization where people are valued, respected and committed to the success of public transportation within our region. We are working aggressively to meet these challenges and accomplish our goals and objectives during this fiscal year and future years. The 2015 budget estimates revenues and expenses to be approximately \$29.8 million each. The BJCTA operates under a balanced budget meaning revenues and expenses are estimated to be equal amounts. 2015 budgeted revenues and expenses reflect an overall increase of approximately \$1 million from fiscal year 2014.
- Implementing the goals and changes from each year's budget is a continuous process. Some of our goals are already completed; however, we are preparing to complete additional goals in fiscal year 2015 through 2016 as follows:
 - *Improve vehicle reliability, system safety, on-time performance and vehicle cleanliness.*
 - *Begin to implement phases of the Short Range Transportation Plan, to include Super Stops.*
 - *Continue to work closely with the City and other entities to advance the Intermodal Center Project.*
 - *Review and improve the Route 20 Bus Route, which now goes to the Birmingham Airport.*
 - *Implementation of the Commuter Routes 150, 201, and the Airport Shuttle.*
 - *Reduced Route headways on several over-crowded routes and review additional reductions on other routes as vehicles become available.*
 - *Work closely with the Municipalities we serve to review routes for efficiencies.*
 - *Ensure that all grants are executed and closed out in a timely manner. In addition, seek additional revenue sources to implement a viable vehicle replacement plan and to insure that the older vehicle fleet is retired as required by the FTA.*
 - *Improve the agency's information technology systems internally from software modifications to maximizing Fleetnet and Stragen computer programs. Install Cameras and AVL on paratransit vehicles to improve system safety.*
 - *Install external fencing on BJCTA property for personnel and vehicle security and safety.*
 - *Continue making internal and external improvements overall, to assist in enhancing our core transportation and customer services.*
 - *Insure that employee training is provided to obtain operational excellence and provide optimal Customer Services. Provide clarity and improve processes for increased bus shelter placement.*
 - *Continue to improve our government/community relations program to increase public transit awareness among all communities; build new community and corporate partnerships; collaborate and work toward obtaining financial sustainability.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

Capital Assets: The Authority's net investment in capital assets was \$26,795,046 as of September 30, 2014. This represents a 17% increase from the Authority's capital asset balance of \$22,820,999 as of September 30, 2013. These investments in capital assets primarily include buses and machinery and equipment.

Additional information on the Authority's capital assets can be found in Note 6 to the financial statements.

Single Audit

The Authority had projects which were audited for compliance as required by the U.S. Office of Management and Budget, Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. These audits report on the Authority's compliance with laws, regulations, contracts and grants applicable to major federal programs through which the Authority received grant revenues. The auditor's report on compliance did not identify any material weaknesses.

Potential Future Impacts

Stakeholders broadly recognize that transit is important for Jefferson County and surrounding areas in terms of connection to jobs, health care, leisure activities and education. Stakeholders recognize the need for stable and reliable funding to support Authority operations as they improve existing services, reform and grow services based on a vision for regional transit services in the future. The vision for the Birmingham-Jefferson County Transit Authority proposes a new direction and approach to public transportation that will create a more innovative, connected and accessible system to facilitate a better quality of life for all Jefferson County and City of Birmingham citizens. The Authority will be a partner for improving mobility in the region to many public and private agencies, in addition to many local jurisdictions.

In order to achieve our transportation vision and goals for our region, the BJCTA will have to acquire additional funding during these tight economic times. In addition to the funding received annually via our regular allocations and revenue sources; the BJCTA mission is to seek ways to increase our ridership, research additional grant opportunities, increase advertising as well as other possible funding sources. Decreasing funding or maintaining the same level of funding will only keep the Authority at a stage where little or no significant growth or improvements can be accomplished.

BJCTA wants to be an economic engine in this region that will encourage economic growth and development and provide viable transit services. BJCTA cannot improve existing services or expand services without increases in funding levels; and without consistent funding streams or a dedicated flexible funding streams going forward.

Vehicle Replacements. The vehicle replacements will be implemented as needed in order for the Authority to ensure the continued safety and reliability of the public transit services, system wide. The Authority has developed a replacement schedule that provides for the acquisition of fixed route buses over the next several years. Federal funds will likely be available to fund up to 80%, with local matching funds to cover the remaining 20%.

Marketing and Customer Information. The Authority will be focusing on greater visibility and marketing of Authority transit services, which is essential to attracting and retaining customers as well as generating support within the community. Some strategies include keeping media outlets updated and engaged, and a new website with trip planning information along with schedules and maps.

Request for Information

This financial overview is designed to provide readers with a general overview of the Authority's finances, and to show accountability. If you have questions or would like further information about this financial report, you may contact the Director of Finance at 2121 Rev. Abraham Woods, Jr. Blvd., Suite 500, Birmingham, AL 35202.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

STATEMENTS OF NET POSITION SEPTEMBER 30, 2014 AND 2013

<u>Assets</u>	<u>2014</u>	<u>2013</u>
Current assets:		
Cash and cash equivalents - unrestricted	\$ 11,356,276	\$ 4,552,997
Cash and cash equivalents - restricted	150,000	150,000
Total cash and cash equivalents	11,506,276	4,702,997
Accounts receivable, net	3,091,745	3,185,186
Grants receivable	6,574,542	14,063,252
Inventory	1,296,987	89,013
Prepaid expenses	412,913	741,643
Total current assets	22,882,463	22,782,091
Noncurrent assets:		
Utility deposits	8,611	7,000
Capital assets:		
Land	1,358,922	1,358,922
Buildings and improvements	11,316,043	11,301,718
Buses and vehicles	40,617,096	36,266,829
Machinery and equipment	6,019,200	5,856,452
Furniture and fixtures	972,066	831,685
Construction in progress	231,476	267,077
Less: accumulated depreciation	(33,719,757)	(33,061,684)
Total capital assets	26,795,046	22,820,999
Total noncurrent assets	26,803,657	22,827,999
Total assets	\$ 49,686,120	\$ 45,610,090
 <u>Liabilities and Net Position</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 591,901	\$ 1,079,617
Accrued payroll and withholdings	651,737	583,880
Accrued retirement plan contribution	160,000	144,000
Self-insurance health plan liability	150,000	150,000
Total current liabilities	1,553,638	1,957,497
Noncurrent liabilities:		
Compensated employee absences	828,010	633,463
Net pension obligation	11,189,269	10,309,122
Uninsured liabilities and damage claims	50,000	50,000
Total noncurrent liabilities	12,067,279	10,992,585
Total liabilities	13,620,917	12,950,082
Net position:		
Net investment in capital assets	26,795,046	22,820,999
Unrestricted	9,270,157	9,839,009
Total net position	36,065,203	32,660,008
Total liabilities and net position	\$ 49,686,120	\$ 45,610,090

See Notes to Financial Statements.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
Operating revenues:		
Passenger fares	\$ 2,503,384	\$ 2,504,837
Other revenues	67,153	124,320
Total operating revenues	<u>2,570,537</u>	<u>2,629,157</u>
Operating expenses:		
Salaries	12,468,639	11,208,268
Depreciation	3,138,671	2,168,544
Fuel and lubricants	1,847,453	1,776,478
Health insurance and medical services	2,939,435	3,042,094
Equipment repairs	1,506,868	3,180,404
Retirement and pension expense	2,899,169	2,350,582
Insurance	1,469,842	1,345,761
Pass-thru funding	3,237,682	2,927,514
Employment taxes	890,820	882,474
Vehicle maintenance	241,837	545,712
Worker's compensation insurance	407,939	392,419
Interest expense	-	12,543
Utilities	617,609	614,075
Vehicle cleaning and towing	50,118	50,619
Tires	326,539	320,236
Computers and software	2,699	5,054
Security services	618,310	377,830
Legal	274,363	310,698
Temporary labor	34,419	240,403
Other contracted services	656,494	455,528
Life insurance	82,032	71,224
Janitorial and building supplies	43,585	51,304
Uniforms	170,499	156,626
Printing and copying	88,987	88,239
Facility maintenance	79,197	82,528
Audit	15,739	27,005
Travel	68,570	53,956
General office supplies	120,317	129,354
Miscellaneous	91,603	76,722
Meetings	100,550	64,366
Minor equipment	25,281	37,313
Dues and subscriptions	45,951	36,683
Lease and rentals	58,683	12,656
Postage	6,374	5,218
Waste oil removal	31,701	21,074
Education	3,500	12,076
Advertising	44,048	15,462
Total operating expenses	<u>34,705,523</u>	<u>33,149,042</u>
Operating loss	<u>(32,134,986)</u>	<u>(30,519,885)</u>
Nonoperating revenues, net		
Federal grant assistance	9,237,296	8,819,565
Local operating assistance:		
Local funding	14,389,246	14,187,409
Ad valorem tax	5,603,839	8,264,212
Insurance proceeds	71,188	47,299
Interest income	6,181	4,863
Gain (loss) on sale of capital assets	(607)	108,768
Total nonoperating revenues	<u>29,307,143</u>	<u>31,432,116</u>
Capital contributions - federal grants	<u>5,373,410</u>	<u>6,779,774</u>
Change in net position from revenues and expenses	<u>2,545,567</u>	<u>7,692,005</u>
Change in net position from change in accounting for inventory	<u>859,628</u>	<u>-</u>
Total change in net position	<u>3,405,195</u>	<u>7,692,005</u>
Net position, beginning of year	<u>32,660,008</u>	<u>24,968,003</u>
Net position, end of year	<u>\$ 36,065,203</u>	<u>\$ 32,660,008</u>

See Notes to Financial Statements.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	2014	2013
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,877,380	\$ 2,815,645
Payments to suppliers	(12,469,794)	(12,184,431)
Payments to employees	(18,447,450)	(17,338,439)
Net cash used in operating activities	<u>(28,039,864)</u>	<u>(26,707,225)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants	36,505,688	29,486,842
Net cash provided by noncapital financing activities	<u>36,505,688</u>	<u>29,486,842</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition or construction of capital assets	(7,176,306)	(8,221,978)
Sale of capital assets	62,982	141,710
Capital grants	5,373,410	6,779,774
Repayment of notes payable	-	(818,481)
Net cash used in capital and related financing activities	<u>(1,739,914)</u>	<u>(2,118,975)</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Insurance proceeds received	71,188	47,299
Interest received	6,181	4,863
Net cash provided by investing activities	<u>77,369</u>	<u>52,162</u>
 Increase in cash and cash equivalents	 6,803,279	 712,804
Cash and cash equivalents:		
Beginning of year	<u>4,702,997</u>	<u>3,990,193</u>
 End of year	 <u>\$ 11,506,276</u>	 <u>\$ 4,702,997</u>
 Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (32,134,986)	\$ (30,519,885)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	3,138,671	2,168,544
Changes in assets and liabilities:		
Decrease in accounts receivable, net	306,843	186,488
(Increase) decrease in inventory	(348,346)	63,718
Decrease in prepaid expenses	328,730	699,532
Increase in utility deposits	(1,611)	-
Increase (decrease) in accounts payable and accrued liabilities	(487,716)	156,980
Increase in accrued payroll and withholdings	67,857	78,758
Increase (decrease) in accrued retirement plan contribution	16,000	(11,618)
Increase in net pension plan liability	880,147	595,387
Increase (decrease) in compensated employee absences	194,547	(125,129)
Net cash used in operating activities	<u>\$ (28,039,864)</u>	<u>\$ (26,707,225)</u>

See Notes to Financial Statements.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

NOTES TO FINANCIAL STATEMENTS

NOTE 1. ORGANIZATION AND REPORTING ENTITY

Organization

The Birmingham-Jefferson County Transit Authority (the "Authority") was incorporated on March 28, 1972, as a nonprofit corporation under the provisions of the Code of Alabama, Act No. 993 enacted at the 1971 Regular Session of the Legislature of Alabama. The Authority provides public transportation services to the municipal residents of Jefferson County, Alabama.

Reporting Entity

The Authority is governed by a nine (9) member board of directors and has separate legal standing from all other units of local government and is fiscally independent of all other units of local government. Therefore, the accompanying financial statements present the financial position of the Authority only. The Authority does not have any component units and is not involved in any joint ventures.

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Accounting

The accounting policies of the Authority conform to accounting principles generally accepted in the United States of America. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing government accounting and financial reporting principles. The Authority has applied all applicable GASB pronouncements.

The Authority uses one fund to report on its financial position and the results of its operations. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions and activities.

A fund is a separate accounting entity with a self-balancing set of accounts. The fund presented in this report is a Proprietary Fund Type - Enterprise Fund. Enterprise Funds are used to account for those operations that are financed and operated in a manner similar to private business or where the Board of Director's has decided that the determination of revenues earned, costs incurred and/or net income is necessary for management accountability.

The accompanying financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, under which revenues are recognized when earned and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

Revenues from passenger fares are reported as operating revenues. Transactions which are capital, financing or investing related are reported as non-operating revenues. All expenses related to operating the transit system are reported as operating expenses. The following is a summary of the more significant policies.

Revenue Recognition

Operating revenue, which are recorded as earned, are derived substantially from passenger fares and special transit fares.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Federal Capital Contributions

Certain expenditures for transit system capital improvements are funded through the Federal Transportation Administration. Capital funding provided under government grants is considered earned as the related allowable expenditures are incurred and all other eligibility requirements are met.

Grants for capital asset acquisition, facility development and rehabilitation and eligible long-term planning studies are reported in the Statement of Revenues, Expenses and Changes in Net Position, after non-operating revenues.

Pass-Thru Funding

Various local entities receive federal grant assistance from the Federal Transportation Administration through the Authority. The Authority, in turn, administers and distributes these funds to the local entities. The federal pass-thru grant assistance is reported in nonoperating revenues and the pass-thru funding expenses are reported in operating expenses in the accompanying statements of revenues, expenses and changes in net position. For the years ended September 30, 2014 and 2013, federal pass-thru grant assistance totaled \$3,237,296 and \$3,109,191, respectively, and pass-thru funding expenses totaled \$3,237,682 and \$2,927,514, respectively.

Cash and Cash Equivalents

For purposes of the statement of cash flows, the Authority considers all highly liquid debt instruments purchased with an original maturity of three months or less to be cash equivalents. Cash and cash equivalents include cash on hand, demand deposits and certificates of deposit.

Investments

State statutes authorize the Authority to invest in U.S. government obligations, or in bonds in the State of Alabama or in any country or municipality therein, or in certificates of deposit collaterally secured by a pledge of the U.S. government obligations.

Receivables

Receivables are reported at their gross value when earned and are reduced by the estimated portion that is expected to be uncollectible. The allowance for uncollectible amounts is based on collection history. When continued collection activity results in receipt of amounts previously written off, revenue is recognized for the amount collected.

Accounts receivable are recognized by the Authority for ticket sales and local operating assistance that has not been received. The uncollected receivables represent a credit risk from possible nonpayment by customers and local governments. A grant receivable is recognized by the Authority for the portion of the grant award not yet received. Consequently, the uncollected receivable represents a credit risk from possible nonpayment by the grantor. Management believes that both accounts and grants receivable are fully collectible.

Inventory

Inventory is stated at average cost. It consists of parts, fuel and lubricants used for operating the Authority's buses and other vehicles and are accounted for on the consumption method.

Restricted Assets

Restricted assets consist of cash which is restricted for the Authority's self-insurance healthcare plan.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets

Capital assets, which include property, plant, rolling stock (buses and other vehicles) and equipment, are reported in the statement of net position at historical cost or at fair value at date of donation, less accumulated depreciation. Depreciation has been provided over the estimated useful lives using the straight-line method. Estimated useful lives by asset category are as follows:

	<u>Estimated Useful Life</u>
Buildings and improvements	20-31.5 years
Buses and other vehicles	10-12 years
Machinery and equipment	5 years
Furniture and fixtures	5 years

Cost of constructed capital assets includes interest during the construction period. No depreciation is provided on construction in progress until construction is substantially complete and the asset is placed in service.

When property and equipment are disposed of, the related cost and accumulated depreciation are removed from the accounts with gains or losses on disposition being reflected in current operations. The Authority capitalizes all capital assets in excess of \$500. Maintenance and repairs are expensed as incurred.

Compensated Absences

Compensated employee absences consist of vacation leave and sick leave. The Authority's employees earn vacation leave at graduated rates based on their length of service (two weeks per year after one year of service). In addition, employees receive five personal days and one floating holiday. Contract employees are eligible for sick leave after one year. Contract employees receive seven sick days per year with a maximum of 184 days. Effective December 1, 2005, employees that retire with 15 years or more of service will be paid a percentage of their available sick leave balance. This amount will be calculated and paid after the employee has retired, but within 60 days from their last date of service. Contract employees receive vacation based on length of service (two weeks per year after one year of service).

An accrual is recorded for accumulated unpaid compensated absences. As of September 30, 2014 and 2013, accrued compensated employee absences totaled \$828,010 and \$633,463, respectively.

Advertising Costs

Advertising costs are expensed as incurred.

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America 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 estimated.

Reclassification

Certain amounts have been reclassified in the 2013 financial statements in order to conform to the 2014 presentation.

NOTES TO FINANCIAL STATEMENTS

NOTE 3. CASH AND CASH EQUIVALENTS

The Authority's cash and cash equivalents are subject to several types of risk, which are examined in more detail below.

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that, in the event of a bank failure, the Authority's deposits (in excess of FDIC insurance) may not be returned to it. At September 30, 2014, the carrying amount of the Authority's bank deposits and cash on hand was \$11,506,276 and the bank balance was \$11,506,372.

The Authority's deposit policy, for custodial credit risk, limits deposits to financial institutions that are members of the Alabama State Treasury's Security for Alabama Funds Enhancement (SAFE) Program. Under the SAFE program, the Authority's funds are protected through a collateral pool administered by the Alabama State Treasury. Certain banks holding deposits belonging to the state, counties, cities, or agencies of any of these entities must pledge securities as collateral against these deposits. In the event of the failure of a bank, securities pledged by that bank would be liquidated by the State Treasurer to replace the public deposits. If the securities pledged failed to produce adequate funds for that purpose, every bank participating in the pool would share the liability for the remaining balance.

Concentration of Credit Risk

Concentration of credit risk is the inability to recover the value of deposits, investments, or collateral securities in the possession of an outside party caused by a lack of diversification (investments acquired from a single issuer). The Authority's cash deposits are held in several financial institutions and are fully insured by the Federal Deposit Insurance Corporation (FDIC) and the SAFE program.

NOTE 4. CASH RESERVES AND RESTRICTIONS

Authority policies require the maintenance of a three month cash reserve. The cash reserve requirement for the years ended September 30, 2014 and 2013 was \$8,143,061 and \$6,826,348, respectively. The unrestricted cash balance, less short-term payables, as of September 30, 2014 and 2013 was \$9,773,040 and \$2,843,887, respectively. Accordingly, the Authority is in compliance with the cash reserve requirement as of September 30, 2014.

The Authority maintains a self-insurance health plan which is more fully discussed in Note 11 for which it maintains certain cash reserves for the funding of this plan. This reserve, which is included in cash and cash equivalents – restricted in the statements of net position, totaled \$150,000 as of September 30, 2014 and 2013. The self-insurance health plan reserves are accrued as a liability in the accompanying statements of net position.

NOTE 5. INVENTORY

As of September 30, 2014 and 2013, inventory consisted of the following:

	September 30,	
	2014	2013
Diesel fuel supply	\$ 46,640	\$ 72,022
Unleaded fuel supply	17,466	16,991
Parts, oil and lubricant	1,232,881	-
Total inventory	<u>\$ 1,296,987</u>	<u>\$ 89,013</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 5. INVENTORY (Continued)

During the year ended September 30, 2014, the Authority began to capitalize its inventory of parts, oil and lubricants on hand. Prior to fiscal year 2014, the Authority was expensing these items when purchased. The change resulted in a one-time credit to unrestricted net position of \$859,628 for the initial adoption as of the beginning of fiscal year 2014. Management has determined that the capitalization of parts, oil and lubricants into inventory is preferable to expensing the items when purchased because the inventory system will better track, monitor and control the acquisition and use of the items in the Authority's transportation operations.

When a change in accounting method is adopted such as the one described above, an entity is required to disclose the effect of the change to all prior periods presented in the financial statements unless doing so is impractical. In general, the parts, oil and lubricant inventory items are smaller in nature and are typically consumed within one fiscal year from the date of purchase; therefore tracking these items to prior periods would not provide useful or meaningful information to those prior periods. Consequently, the Authority elected to record the total cumulative effect of this change as of the beginning of the current fiscal year, October 1, 2013, and not record the effect of this adoption to any fiscal year prior to that.

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended September 30, 2014 was as follows:

	Balance at October 1, 2013	Additions	Deductions	Balance at September 30, 2014
Capital assets not being depreciated:				
Land	\$ 1,358,922	\$ -	\$ -	\$ 1,358,922
Construction in progress	267,077	124,712	(160,313)	231,476
Total capital assets not being depreciated	1,625,999	124,712	(160,313)	1,590,398
Capital assets being depreciated:				
Buildings and improvements	11,301,718	59,973	(45,648)	11,316,043
Buses and vehicles	36,266,829	6,827,634	(2,477,367)	40,617,096
Machinery and equipment	5,856,452	162,748	-	6,019,200
Furniture and fixtures	831,685	161,552	(21,171)	972,066
Total capital assets being depreciated	54,256,684	7,211,907	(2,544,186)	58,924,405
Less accumulated depreciation	33,061,684	(3,138,671)	2,480,598	33,719,757
Total capital assets being depreciated, net	21,195,000	4,073,236	(63,588)	25,204,648
Total capital assets, net	\$ 22,820,999	\$ 4,197,948	\$ (223,901)	\$ 26,795,046

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

	Balance at October 1, 2012	Additions	Deductions	Balance at September 30, 2013
Capital assets not being depreciated:				
Land	\$ 1,358,922	\$ -	\$ -	\$ 1,358,922
Construction in progress	273,225	52,215	(58,363)	267,077
Total capital assets not being depreciated	1,632,147	52,215	(58,363)	1,625,999
Capital assets being depreciated:				
Buildings and improvements	11,328,778	18,464	(45,524)	11,301,718
Buses and vehicles	29,595,862	7,925,046	(1,254,079)	36,266,829
Machinery and equipment	6,262,599	214,581	(620,728)	5,856,452
Furniture and fixtures	892,208	70,036	(130,559)	831,685
Total capital assets being depreciated	48,079,447	8,228,127	(2,050,890)	54,256,684
Less accumulated depreciation	32,911,087	(2,168,544)	2,017,947	33,061,684
Total capital assets being depreciated, net	15,168,360	6,059,583	(32,943)	21,195,000
Total capital assets, net	\$ 16,800,507	\$ 6,111,798	\$ (91,306)	\$ 22,820,999

NOTES TO FINANCIAL STATEMENTS

NOTE 7. PENSION PLAN

Plan Description

The Authority maintains a trustee, single-employer, defined benefit pension plan covering substantially all full-time permanent union employees. The Employees' Retirement Plan (the "Employees' Plan") is governed by the terms of the employees' collective bargaining agreement.

Substantially all non-temporary, full-time employees who have completed sixty (60) days of continuous service are covered by the Employees' Plan. Employees who retire at or after age 65 (or after completion of 25 years of continuous service with full benefits or at age 55 with reduced benefits) are entitled to an annual retirement payable monthly for life, in an amount based upon compensation and credited service. The Employees' Plan also provides death, disability, and hospitalization benefits. The Employees' Plan issues a separate standalone financial report and is available upon request.

Funding Policy and Annual Pension Cost

Contribution requirements of the Employees' Plan are governed by collective bargaining agreements. Supplemental plan contributions are actuarially determined but may be amended by the Board of Trustees of the Plan. The Authority's annual pension cost for the current year and related information is based on the actuarial report for the fiscal year 2014. Those amounts are as follows:

	<u>Employees' Retirement Plan</u>
Contribution rates:	
Authority	20.5%
Plan members	3.5%
Annual pension cost (APC)	\$2,384,454
Actual 2014 contributions:	
Authority	\$1,504,307
Plan members	\$256,833
Actuarial valuation date	January 1, 2013
Actuarial cost method	Unit credit
Amortization method	Level amortization; closed basis
	Approximately 13 years remaining
Amortization period for assumption changes	15 years
Amortization period for plan changes	30 years
Asset valuation method	Fair Market Value
Actuarial assumptions:	
Investments rate of return	7.0%
Projected salary increase	2.5%
Inflation rates	No future increases expected

NOTES TO FINANCIAL STATEMENTS

NOTE 7. PENSION PLAN (Continued)

Funding Policy and Annual Pension Cost (Continued)

The following represents the significant components of the annual required contribution (ARC) and changes in net pension obligation (NPO) during the fiscal years ended September 30, 2014 and 2013 as reported by the actuarial reports for each respective year:

	September 30,	
	2014	2013
Annual required contributions (ARC)	\$ 2,875,166	\$ 3,117,590
Interest on NPO	721,639	679,940
Adjustment to ARC	(1,212,351)	(1,100,469)
Annual pension cost	2,384,454	2,697,061
Contributions made	(1,504,307)	(2,101,674)
Increase in NPO	880,147	595,387
NPO – September 30, 2013	10,309,122	9,713,735
NPO – September 30, 2014	\$ 11,189,269	\$ 10,309,122

Three-Year Trend Information

The following summarizes fund information for the Employees' Plan, as presented in the actuarial report for the year ended September 30, 2014.

	Annual Pension Cost (APC)	Actual Contributions	Percentage Of APC Contributed	Net Pension Obligation
September 30, 2014	\$ 2,384,454	\$ 1,504,307	63.08%	\$ 11,189,269
September 30, 2013	\$ 2,697,061	\$ 2,101,674	77.92%	\$ 10,309,122
September 30, 2012	\$ 2,600,448	\$ 1,466,414	56.39%	\$ 9,713,735

The actuarial accrued liability is a standard disclosure measure of the present value of pension benefits, adjusted for the effects of projected salary increases and step-rate benefits, estimated to be payable in the future as a result of employee service to date. The measure, which is the actuarial present value of credited projected benefits, is intended to help users assess the Plan's funding status on a going-concern basis, assess progress made in accumulating sufficient assets to pay benefits when due, and make comparisons among other such plans. The measure is independent of the funding method used to determine contributions to the plans, which is the Entry Age Normal Cost Method.

NOTES TO FINANCIAL STATEMENTS

NOTE 7. PENSION PLAN (Continued)

The following presents the funded status of the Authority's Pension Plan as of January 1, 2013 and 2012, the actuarial valuation dates for the fiscal years ended September 30, 2014 and 2013, respectively, as reported in the actuarial reports for each respective year:

	January 1,	
	2013	2012
Actuarial accrued liability	\$ 26,370,909	\$ 28,084,848
Less market value of plan assets	8,465,493	7,485,306
Unfunded actuarial liability	\$ 17,905,416	\$ 20,599,542
Funded ratio (Plan assets/Actuarial liability)	32.10%	26.65%
Annual covered payroll	\$ 7,338,082	\$ 7,326,674
Unfunded actuarial liability to covered payroll	244.01%	281.16%

The required schedule of funded status and funding progress immediately following the notes to the financial statements presents multiyear trend information about whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liability. Actuarial valuations involve estimates of the value of reported amounts and assumptions about the probability of events far into the future, and actuarially determined amounts are subject to continual revision as results are compared to past expectations and new estimates are made about the future. Actuarial calculations reflect a long-term perspective. Calculations are based on the substantive plan in effect and on the pattern of sharing of costs between the Authority and plan members to that point.

On June 25, 2012, the Government Accounting Standards Board (GASB) approved final standards related to pension accounting and financial reporting for state and local governments. The new standards are found under GASB 68 (employer accounting). GASB 68 is first effective for employer financial statements for fiscal years beginning after June 15, 2014.

The new standards for GASB 68 will have a significant impact on financial reporting by: requiring employers to recognize on the statement of net position the net pension liability versus the net pension obligation as is currently recognized and disclosed. The net pension liability will represent the total pension liability less the market value of plan assets. Key components of the pension liability calculation will include: the discount rate will be a blended rate; the long-term expected return on assets may be used on the portion of the liability that is "funded"; a tax-exempt, high-quality 20-year municipal bond index must be used on the "unfunded" portion which will lower the effective discount rates and increase liabilities for most plans; requiring employers to recognize a new measure of pension expense that may have little relation to the actuarially-required contribution (i.e. ARC). The new approach will accelerate expense recognition of benefit changes, differences between assumed and actual economic and demographic factors and changes in assumptions, and differences in projected and annual earnings on plan assets. Consequently, most of the current financial statement disclosures and required supplementary information will be replaced with information based on new measures. This accounting change will not increase or decrease the actual funded status of the plan. The Authority must continue to make contributions to the Plan for the funded status (funded ratio) to increase.

The Authority adopted GASB 68 on October 1, 2014, the beginning of the first fiscal year after the required date of adoption, by recognizing a one-time charge to beginning net position for a change in accounting principle. Based upon actuarial estimates for the fiscal year ended September 30, 2014 under the new accounting guidance described above, the net pension liability would be \$24,144,620 compared to the net pension obligation of \$11,189,269 that is currently recognized causing the effect of adopting GASB 68 to be a charge of \$12,955,351 to net position.

NOTES TO FINANCIAL STATEMENTS

NOTE 8. DEFINED CONTRIBUTION PLAN

The Authority is the sponsor of a defined contribution money purchase pension plan for administrative employees (the "Administrative Plan"). Under the Administrative Plan, for employees who have completed one-half year of continuous full-time service, the Authority contributes 5% of annual compensation of eligible non-contract employees. The participants are fully vested in their accounts if they were participating in the Administrative Plan on the effective date (November 29, 1995). Otherwise, employees will become fully vested after completing one year of credit service. Retirement plan expense for the Administrative Plan for the years ended September 30, 2014 and 2013 was \$160,000 and \$144,000, respectively.

Investments in the Administrative Plan are managed by the Plan Administrator. Assets of the Administrative Plan are immaterial to the Authority's financial statements and are not reflected in the financial statements.

NOTE 9. COMMITMENTS AND CONTINGENCIES

Amounts received or receivable from grantor agencies are subject to audit and adjustment by grantor agencies, principally the Federal government. Any disallowed claims, including amounts already collected, may constitute a liability of the applicable funds. The amount, if any, of expenditures which may be disallowed by the grantor cannot be determined at this time although the Authority expects such amounts, if any, to be immaterial.

The Authority entered into an eighteen month lease agreement in September 2013 for new executive office space. Rent will be paid at a rate of \$12,500 per quarter for the term of the lease. Lease payments totaled \$50,000 for the fiscal year ended September 30, 2014 and will total \$25,000 for the fiscal year ended September 30, 2015 under the current lease agreement.

NOTE 10. RISK MANAGEMENT

The Authority is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; injuries to employees or others; and natural disasters.

An estimated liability of \$50,000 has been reported as of September 30, 2014 and 2013, for outstanding claims or for any potential claims incurred but not reported as of that date. In addition, the Authority maintains commercial liability insurance coverage for such events. Settled claims have not exceeded these commercial coverages by any material amounts during the years ended September 30, 2014, 2013 and 2012.

NOTES TO FINANCIAL STATEMENTS

NOTE 11. SELF-INSURANCE PLAN

The Authority began a self-insured health insurance program in March of 2004. Claims are processed under an arrangement with a third-party claims administrator. The Authority funds the plan based upon the level of claims. The estimated liability for the fund balance at September 30, 2014 and 2013 was \$150,000. Activity within the Plan for the years ended September 30, 2014 and 2013 are as follows:

	<u>Beginning Balance</u>	<u>Employer Contributions and Changes in Estimates</u>	<u>Claims Paid</u>	<u>Ending Balance</u>
2014	\$ 150,000	\$ 2,636,956	\$ (2,636,956)	\$ 150,000
2013	\$ 150,000	\$ 2,335,360	\$ (2,335,360)	\$ 150,000

NOTE 12. SUBSEQUENT EVENTS

Management is required to disclose certain significant events that occur after fiscal year-end but before financial statement issuance. Management has evaluated events occurring through January 16, 2015, the date the financial statements were available to be issued.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

SCHEDULE OF FUNDED STATUS AND FUNDING PROGRESS

The following presents the funded status and funding progress of the Authority's Pension Plan as disclosed in Note 7 in the notes to financial statements as of January 1, 2013, 2012 and 2011, the actuarial valuation dates for the fiscal years ended September 30, 2014, 2013 and 2012, respectively, as reported by the actuarial reports for each respective year:

	January 1,		
	2013	2012	2011
Actuarial accrued liability	\$ 26,370,909	\$ 28,084,848	\$ 27,419,290
Less market value of plan assets	8,465,493	7,485,306	8,321,262
Unfunded actuarial liability	\$ 17,905,416	\$ 20,599,542	\$ 19,098,028
Funded ratio (Plan assets/Actuarial liability)	32.10%	26.65%	30.35%
Annual covered payroll	\$ 7,338,082	\$ 7,326,674	\$ 6,927,105
Unfunded actuarial liability to covered payroll	244.01%	281.16%	275.70%

SUPPLEMENTARY INFORMATION



**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

**To the Board of Directors
Birmingham-Jefferson County Transit Authority
Birmingham, Alabama**

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the basic financial statements of Birmingham-Jefferson County Transit Authority which comprise the statements of net position as of September 30, 2014 and 2013, and the related statements of revenues, expenses and changes in net position and cash flows for the years then ended, and the related notes to the financial statements, which collectively comprise the Birmingham-Jefferson County Transit Authority's basic financial statements and have issued our report thereon dated January 16, 2015.

Internal Control Over Financial Reporting

In planning and performing our audits of the basic financial statements, we considered the Birmingham-Jefferson County Transit Authority's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Birmingham-Jefferson County Transit Authority's internal control. Accordingly, we do not express an opinion on the effectiveness of Birmingham-Jefferson County Transit Authority's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

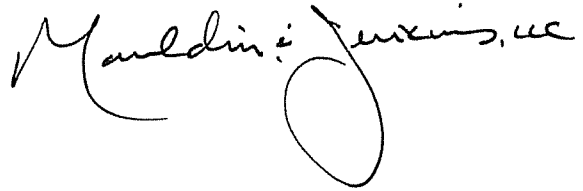
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audits we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Birmingham-Jefferson County Transit Authority's basic financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

A handwritten signature in black ink, appearing to read "Mauldin & Jenkins, LLC". The signature is stylized with a large, looping initial 'M' and a large, circular flourish at the end.

Birmingham, Alabama
January 16, 2015



**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR
FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE
REQUIRED BY OMB CIRCULAR A-133**

**To the Board of Directors
Birmingham-Jefferson County Transit Authority
Birmingham, Alabama**

Report on Compliance for Each Major Federal Program

We have audited Birmingham-Jefferson County Transit Authority's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of Birmingham-Jefferson County Transit Authority's major federal programs for the year ended September 30, 2014. Birmingham-Jefferson County Transit Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of Birmingham-Jefferson County Transit Authority's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about Birmingham-Jefferson County Transit Authority's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the Birmingham-Jefferson County Transit Authority's compliance.

Opinion on Each Major Federal Program

In our opinion, the Birmingham-Jefferson County Transit Authority complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended September 30, 2014.

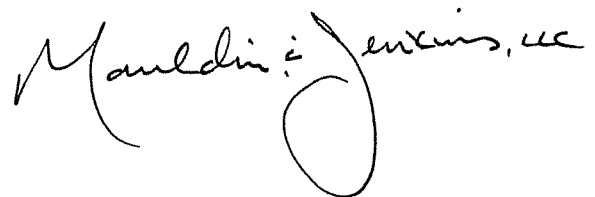
Report on Internal Control Over Compliance

Management of Birmingham-Jefferson County Transit Authority is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audits of compliance, we considered Birmingham-Jefferson County Transit Authority's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of Birmingham-Jefferson County Transit Authority's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

A handwritten signature in black ink, reading "Mauldin Jenkins, LLC". The signature is stylized, with a large, looping "M" and "J".

Birmingham, Alabama
January 16, 2015

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2014

Direct Program:	Federal	Funds
U.S. Department of Transportation – Direct Programs	CFDA	Expended
	Number	
Federal Transit Capital Investment Grants	20.500	\$ 479,489
Federal Transit Formula Grants	20.507	8,834,088
Total Federal Transit Cluster		<u>9,313,577</u>
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	2,440,507
Job Access Reverse Commute	20.516	140,064
New Freedom Program	20.521	129,077
Total Transit Services Programs Cluster		<u>2,709,648</u>
Clean Fuels Project Grants	20.519	<u>2,500,000</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u><u>\$ 14,523,225</u></u>

See Note to Schedule of Expenditures of Federal Awards

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

NOTE TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2014

NOTE 1. BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of Birmingham-Jefferson County Transit Authority (the "Authority") and is presented on the accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in, the preparation of the basic financial statements.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

SCHEDULE OF FINDINGS AND QUESTIONED COSTS YEAR ENDED SEPTEMBER 30, 2014

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unmodified

Internal control over financial reporting:

Material weakness(es) identified?

____ Yes X No

Significant deficiency(ies) identified that are not considered
to be material weakness(es)?

____ Yes X None reported

Noncompliance material to financial statements noted?

____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified?

____ Yes X No

Significant deficiency(ies) identified that are not considered
to be material weakness(es)?

____ Yes X None reported

Type of auditor's report issued on compliance for major programs:

Unmodified

Any audit findings disclosed that are required to be reported in
accordance with Section 510(a) of Circular A-133?

____ Yes X No

Identification of major programs

CFDA Numbers

20.500 and 20.507

20.519

Name of Federal Program or Cluster

Federal Transit Cluster

Clean Fuels Project Grants

Dollar threshold used to distinguish between
Type A and Type B programs:

\$435,697

Auditee qualified as low-risk auditee?

____ Yes X No

Section II - Financial Statement Findings

None reported.

Section III - Federal Award Findings and Questioned Costs

None reported.