

**BIRMINGHAM-JEFFERSON COUNTY
TRANSIT AUTHORITY**

FINANCIAL REPORT

SEPTEMBER 30, 2013

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

FINANCIAL REPORT SEPTEMBER 30, 2013

TABLE OF CONTENTS

Page

INDEPENDENT AUDITOR'S REPORT.....	1-2
MANAGEMENT'S DISCUSSION AND ANALYSIS.....	3-8
FINANCIAL STATEMENTS	
Statements of net position.....	9
Statements of revenues, expenses and changes in net position.....	10
Statements of cash flows.....	11
Notes to financial statements.....	12-21
SCHEDULE OF FUNDED STATUS AND FUNDING PROGRESS.....	22
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 <i>Government Auditing Standards</i>	24-25
Independent Auditor's Report on Compliance for Each Major Federal Program and on Internal Control over Compliance Required by OMB Circular A-133.....	26-27
Schedule of Expenditures of Federal Awards.....	28
Note to Schedule of Expenditures of Federal Awards	29
Schedule of Findings and Questioned Costs	30



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 year ended September 30, 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 audit. We conducted our audit 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 audit 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, 2013, and the changes in its financial position and its cash flows for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Prior Period Financial Statements

The financial statements of Birmingham-Jefferson County Transit Authority as of September 30, 2012 and for the year then ended were audited by other auditors, whose report dated January 25, 2013 expressed an unmodified opinion on those statements.

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 February 21, 2014, 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
February 21, 2014

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, 2013 and 2012. 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 at 1735 Morris Avenue. The Authority accomplished various key objectives during the 2013 fiscal year that has created great excitement and expectation among Board members, staff, contractor, partners and the community as a whole. The Authority is 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 2013 are as follows:

- During the 2012 Strategic Planning, Leadership Development and Board/Management Retreat; the BJCTA Board of Directors and Senior Staff adopted a new Vision Statement and redeveloped its Mission and its Core Values. *"The BJCTA's Vision Statement is simple, however challenging as well; which is to be recognized as the most viable, regional mobility system in the United States. Our Mission is to provide safe, reliable, and excellent transit and other mobility services that contribute to the region's economy, vitality, and sustainability. Our Core Values are: attitude, integrity, teamwork, quality, and excellence."*
- Renewal/ratification of a three (3) year contract with the Amalgamated Transit Union Local # 725. The contract provided for a 1% salary increase the first year (2013), with a 1% increase the second year (2014) and a 1.5% increase in the third year (2015). The previous contract was only a one-year contract.
- During 2013 the Contracted Worker's unstable pension plan was solidified to make the plan whole over the next 10 years. This was done through negotiating with the Union Leadership. The Union Members voted to double the contribution from 3% to 6% within the first year (2013) and by 1% for each of years 2014 and 2015.
- Max had a very successful Ribbon Cutting Ceremony for Thirty (30) New Flyer buses which were purchased, added to the Max Fleet and is currently in transit service.
- Max brought its custodial staff in-house. These positions were previously contracted-out services. This change has proved to be more cost effective by having the services in-house.
- Max had legislation passed for the first time in 40 years that would give the Authority the flexibility of changing its fiscal year from October 1st - September 30th; to July 1st - June 30th if necessary. The legislation changed the Board terms from six years to four years as well as contained language to clean-up and clarify previous amendments into one current legislative document.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Authority Activities and Highlights (Continued)

- Max is working closely with the City of Birmingham to bring the Intermodal Center project to completion. All federal requirements have been met, the useful life of the Central Station facility has been paid off and Max has possession of the deed.
- A new telephone system was purchased and installed during this period.
- Upgrades were implemented to the StrataGen Software that the Max Paratransit Dispatchers use to generate manifests for the vehicle operators.
- Fleet Net Software was upgraded as well. This software is used by the Authority within the Maintenance, Finance, Human Resources, Procurement, Operations and Payroll departments. The software had not been upgraded in over seven years. New computer servers and some computers were purchased to upgrade the system to accommodate the software requirements.

Financial Highlights

Key financial highlights for fiscal year 2013 are as follows:

- The Authority's net position (amount that assets exceeded liabilities) was \$32,660,008 and \$24,968,003 at September 30, 2013 and 2012, respectively. Of these amounts, \$22,820,999 and \$16,800,507, respectively, represented the Authority's net investment in capital assets.
- The Authority's total net position increased \$7,692,005 during the year ended September 30, 2013 and decreased \$3,611,216 during the year ended September 30, 2012. 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 \$28,161,995 and \$24,978,991 during the years ended September 30, 2013 and 2012, respectively. The Authority received federal capital contribution grants totaling \$6,779,774 and \$99,105 during the years ended September 30, 2013 and 2012, 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, 2013 and 2012. 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 20 of this report.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements

Net Position: The following table summarizes the net position at September 30, 2013, 2012 and 2011.

	2013	2012	2011
Current assets	\$ 22,782,091	\$ 21,234,681	\$ 20,311,237
Capital assets	22,820,999	16,800,507	19,964,418
Other long-term assets	7,000	7,000	7,000
Total assets	45,610,090	38,042,188	40,282,655
Current liabilities	1,957,497	2,551,858	2,432,703
Long-term liabilities	10,992,585	10,522,327	9,270,733
Total liabilities	12,950,082	13,074,185	11,703,436
Net position:			
Net investment in capital assets	22,820,999	16,800,507	19,964,418
Unrestricted	9,839,009	8,167,496	8,614,801
Total net position	\$ 32,660,008	\$ 24,968,003	\$ 28,579,219

The Authority's total current assets increased by \$1,547,410 and \$923,444 during the years ended September 30, 2013 and 2012, respectively. Elements to consider related to these changes include:

- The Authority's unrestricted cash and cash equivalents increased from \$3,840,193 to \$4,552,997 during the year ended September 30, 2013. Grants receivable increased by \$1,873,212 during this time period as well and is attributable primarily to the purchase of new buses as described below.

The Authority's capital and other long-term assets increased by \$6,020,492 during the year ended September 30, 2013. Elements to consider related to these changes include:

- In fiscal year 2013, the Authority purchased capital assets in the amount of \$8,221,978, while incurring depreciation on capital assets in the amount of \$2,168,544, which contributed to the \$6,020,492 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 \$594,361 during the year ended September 30, 2013. Elements to consider related to these changes include:

- Accounts payable increased from \$868,639 to \$981,230 during the year ended September 30, 2013 and notes payable decreased from \$818,481 to \$0. The note payable was repaid on January 25, 2013.

The Authority's long-term liabilities increased by \$470,258 during the year ended September 30, 2013. 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 \$7,692,005 during the year ended September 30, 2013 and decreased by \$3,611,216 for the year ended September 30, 2012. These changes are attributed to the fluctuations of operating and capital grants received by the Authority.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Financial Statements (Continued)

Revenues, Expenses and Changes in Net Position: The following table summarizes the revenues, expenses and changes in net position for the years ended September 30, 2013, 2012 and 2011.

	2013	2012	2011
Operating revenues:			
Passenger fares	\$ 2,504,837	\$ 2,373,968	\$ 2,152,963
Other	124,320	104,355	85,123
Operating revenues	<u>2,629,157</u>	<u>2,478,323</u>	<u>2,238,086</u>
Operating expenses:			
Salaries and benefits	17,875,837	17,257,281	16,859,113
Vehicle fuel, repairs, and maintenance	2,693,045	2,526,512	2,269,879
Other operating expenses	7,484,102	8,082,102	6,172,164
Depreciation	2,168,544	3,286,985	3,577,480
Operating expenses	<u>30,221,528</u>	<u>31,152,880</u>	<u>28,878,636</u>
Nonoperating revenues			
Operating grants – local assistance	14,187,409	13,171,322	13,391,214
Operating grants – federal assistance	5,892,051	5,558,587	6,301,462
Ad valorem tax revenue	8,264,212	6,064,697	7,028,101
Insurance proceeds	47,299	126,671	65,614
Gain on sale of capital assets	108,768	36,090	70,950
Interest income	4,863	6,869	8,077
Nonoperating revenues, net	<u>28,504,602</u>	<u>24,964,236</u>	<u>26,865,418</u>
Capital contributions – federal grants	<u>6,779,774</u>	<u>99,105</u>	<u>6,970,227</u>
Change in net position	<u>\$ 7,692,005</u>	<u>\$ (3,611,216)</u>	<u>\$ 7,195,095</u>

For the year ended September 30, 2013, operating revenues of the Authority were \$2,629,157, or 6.1% more than fiscal year 2012 revenues of \$2,478,323. Fiscal year 2012 operating revenues were 10.7% more than fiscal year 2011 revenues. The increases in operating revenues are primarily the result of an increase in passenger fares from increased ridership.

For the year ended September 30, 2013, operating expenses decreased \$931,352, or 3.0% to \$30,221,528. Fiscal year 2012 operating expenses increased \$2,274,244 or 7.9% from fiscal year 2011. The 2013 decrease in operating expenses is primarily due to a decrease in depreciation. The 2012 increase is primarily due to an increase in equipment repairs.

For the year ended September 30, 2013, nonoperating revenues of the Authority were \$28,504,602. Total fiscal year 2012 and 2011 nonoperating revenues were \$24,964,236 and \$26,865,418, 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.

Budget Analysis

Over the course of the year, the Authority operated under an approved budget for the year ended September 30, 2013 by the Board of Directors. The budget was approved by the Board of Directors in May 2012 but was revised mid-year based upon actual performance year to date and projected performance for the remainder of the year. In April 2013, the Board approved the 12-month budget for the year ending September 30, 2014. 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.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Budget Analysis (Continued)

Below are highlights from each year's budget process.

- The BJCTA fiscal year 2013 budget focused on cost control measures and maintaining a stable revenue base. The original 2013 budget before revision estimated revenue at \$26.2 million compared to actual revenues of \$28.7 million for the 2013 fiscal year. The variance is primarily related to higher than expected local funding from fixed-route services and increased farebox revenues. The 2013 budget before revision also estimated operating expenses at \$26.2 million compared to actual expenses of \$30.2 million (including depreciation expense) for the 2013 fiscal year. The variance was due to higher than expected expenses in the areas of employee health insurance, retirement and pension expense and equipment repairs and maintenance. As noted above, these budgeted amounts were revised during the course of fiscal year 2013 to more closely compare to 2013 actual results.
- The BJCTA fiscal year 2014 budget reflects an increase in staffing and upgrades to our various operating systems. The overall increases are needed to insure sufficient staffing is available to accomplish our mission. We are way behind in our technological changes as in software and hardware; the purchase of additional vehicles and needed training and innovations as we want to keep pace with the growth and development of current and potential transit services. We are striving 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 in this fiscal year and future years. The 2014 budget estimates revenues and expenses to be approximately \$28.9 million each. The BJCTA operates under a balanced budget meaning revenues and expenses are estimated to be equal amounts. 2014 budgeted revenues are consistent with fiscal year 2013. 2014 budgeted expenses reflect an overall decrease of approximately \$1.3 million from fiscal year 2013. However, personnel costs are budgeted to increase \$2.1 million and with offsetting decreases of \$3.4 million in other expense categories.
- The staffing increases are necessary to insure that the BJCTA provides the most efficient and effective transit services possible, as we try to restore the confidence and creditability of this organization. As this region grows, as the Birmingham Business Alliance's ("BBA") Blue Print Birmingham has shown and projected, our Authority must have sufficient resources to effectively keep up with this growth.
- As noted by the Peer Reviews and our Short Range Transportation Plans, the BJCTA has not kept pace with its peer transit agencies, or the growth within our region. Our fare box revenue recovery ratio for the fiscal year ended September 30, 2013, calculated as passenger fare revenues divided by operating expenses, is only at 9% compared to the industry standards of 16%-20% annually. Below highlights some key initiatives implemented with the 2013 & 2014 budgets to increase the performance and operating effectiveness of BJCTA. Some goals are completed and we are preparing to complete additional goals in fiscal year 2014 through 2015 that include the following:
 - *Upgrade the vehicle fleet; The BJCTA has ordered thirty-seven (37) new vehicles and is preparing to receive the last seven (7) new vehicles by Mid-Summer 2014. The additional seven (7) were ordered in the last quarter of fiscal year 2013.*
 - *Improve vehicle reliability, system safety, on-time performance and vehicle cleanliness.*
 - *Begin to implement phases of the Short Range Transportation Plan by changing the way we currently operate our Hub and Spoke type transit services.*
 - *Work closely with the City and other entities to advance the Intermodal Center Project.*
 - *Reduce route headways on several over-crowded routes and review additional reductions on other routes as vehicles become available thereby increasing the frequency of services.*
 - *Implement a viable vehicle replacement plan, to assure that the older vehicle fleet is retired as required by the FTA.*
 - *Improve the Authority's information technology internally from computer upgrades and externally to announcement systems on our vehicles.*
 - *Ratify a three (3) year contract with the local union; which has been completed.*
 - *Solidify the local union's pension plan to be funded and become solvent over the next several years; this process is also completed.*
 - *We are also making internal and external improvements overall to assist in enhancing our core transportation services.*
 - *Insure that employee training is provided to obtain operational excellence and provide optimal Customer Services, as well as assess and increase bus shelter placement.*
 - *Implement a government/community relations program to increase public transit awareness among all communities and build new community and corporate partnerships as we collaborate and work toward obtaining financial sustainability. This process has begun.*

MANAGEMENT'S DISCUSSION AND ANALYSIS

Capital Assets

Capital Assets: The Authority's net investment in capital assets was \$22,820,999 as of September 30, 2013. This represents a 36% increase from the Authority's capital asset balance of \$16,800,507 as of September 30, 2012. 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 will also seek non-traditional funding streams such as public/private partnerships to assist in providing the needed funds for our capital vehicle investments. With the growth and development that is happening within our region, BJCTA wants to be an economic engine that encourages economic growth and development by providing viable transit services to those areas. BJCTA cannot improve existing or expand services without increases in funding levels and without consistent and/or dedicated flexible funding streams.

As the BBA has indicated, our region has seen a tremendous increase in jobs and Forbes Magazine has sighted Birmingham as one of 15 up and coming downtown areas in the nation. The Max team will be a key partner in that success.

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, 2013 AND 2012

<u>Assets</u>	<u>2013</u>	<u>2012</u>
Current assets:		
Cash and cash equivalents - unrestricted	\$ 4,552,997	\$ 3,840,193
Cash and cash equivalents - restricted	150,000	150,000
Total cash and cash equivalents	<u>4,702,997</u>	<u>3,990,193</u>
Accounts receivable, net	3,185,186	3,460,542
Grants receivable	14,063,252	12,190,040
Inventory	89,013	152,731
Prepaid expenses	741,643	1,441,175
Total current assets	<u>22,782,091</u>	<u>21,234,681</u>
Noncurrent assets:		
Utility deposits	7,000	7,000
Capital assets:		
Land	1,358,922	1,358,922
Buildings and improvements	11,301,718	11,328,778
Buses and vehicles	36,266,829	29,595,862
Machinery and equipment	5,856,452	6,262,599
Furniture and fixtures	831,685	892,208
Construction in progress	267,077	273,225
Less: accumulated depreciation	<u>(33,061,684)</u>	<u>(32,911,087)</u>
Total capital assets	<u>22,820,999</u>	<u>16,800,507</u>
Total noncurrent assets	<u>22,827,999</u>	<u>16,807,507</u>
Total assets	<u><u>\$ 45,610,090</u></u>	<u><u>\$ 38,042,188</u></u>
<u>Liabilities and Net Position</u>		
Current liabilities:		
Accounts payable and accrued expenses	\$ 1,079,617	\$ 922,637
Accrued payroll and withholdings	583,880	505,122
Accrued retirement plan contribution	144,000	155,618
Notes payable	-	818,481
Self-insurance health plan liability	150,000	150,000
Total current liabilities	<u>1,957,497</u>	<u>2,551,858</u>
Noncurrent liabilities:		
Compensated employee absences	633,463	758,592
Net pension obligation	10,309,122	9,713,735
Uninsured liabilities and damage claims	50,000	50,000
Total noncurrent liabilities	<u>10,992,585</u>	<u>10,522,327</u>
Total liabilities	<u>12,950,082</u>	<u>13,074,185</u>
Net position:		
Net investment in capital assets	22,820,999	16,800,507
Unrestricted	9,839,009	8,167,496
Total net position	<u>32,660,008</u>	<u>24,968,003</u>
Total liabilities and net position	<u><u>\$ 45,610,090</u></u>	<u><u>\$ 38,042,188</u></u>

See Notes to Financial Statements.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
Operating revenues:		
Passenger fares	\$ 2,504,837	\$ 2,373,968
Other revenues	124,320	104,355
Total operating revenues	<u>2,629,157</u>	<u>2,478,323</u>
Operating expenses:		
Salaries	11,208,268	10,650,102
Depreciation	2,168,544	3,286,985
Fuel and lubricants	1,776,478	1,586,694
Health insurance and medical services	3,042,094	2,093,907
Equipment repairs	3,180,404	3,936,452
Retirement and pension expense	2,350,582	3,372,054
Insurance	1,345,761	1,388,973
Employment taxes	882,474	784,674
Vehicle maintenance	545,712	457,006
Worker's compensation insurance	392,419	356,544
Interest expense	12,543	4,159
Utilities	614,075	549,665
Vehicle cleaning and towing	50,619	125,120
Tires	320,236	357,692
Computers and software	5,054	3,186
Security services	377,830	232,992
Legal	310,698	446,931
Temporary labor	240,403	277,466
Other contracted services	455,528	475,849
Life insurance	71,224	63,800
Janitorial and building supplies	51,304	163,028
Uniforms	156,626	105,040
Printing and copying	88,239	84,664
Facility maintenance	82,528	55,694
Audit	27,005	26,218
Travel	53,956	24,044
General office supplies	129,354	19,897
Miscellaneous	76,722	36,871
Meetings	64,366	30,205
Minor equipment	37,313	27,955
Dues and subscriptions	36,683	36,694
Lease and rentals	12,656	11,144
Postage	5,218	4,199
Waste oil removal	21,074	18,266
Education	12,076	11,346
Advertising	15,462	47,364
Total operating expenses	<u>30,221,528</u>	<u>31,152,880</u>
Operating loss	<u>(27,592,371)</u>	<u>(28,674,557)</u>
Nonoperating revenues, net		
Federal grant assistance	5,892,051	5,558,587
Local operating assistance:		
Local funding	14,187,409	13,171,322
Ad valorem tax	8,264,212	6,064,697
Insurance proceeds	47,299	126,671
Interest income	4,863	6,869
Gain on sale of capital assets	108,768	36,090
Total nonoperating revenues	<u>28,504,602</u>	<u>24,964,236</u>
Capital contributions - federal grants	<u>6,779,774</u>	<u>99,105</u>
Change in net position	7,692,005	(3,611,216)
Net position, beginning of year	<u>24,968,003</u>	<u>28,579,219</u>
Net position, end of year	<u>\$ 32,660,008</u>	<u>\$ 24,968,003</u>

See Notes to Financial Statements.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

STATEMENTS OF CASH FLOWS YEARS ENDED SEPTEMBER 30, 2013 AND 2012

	2013	2012
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	\$ 2,815,645	\$ 2,903,017
Payments to suppliers	(9,256,917)	(11,445,045)
Payments to employees	(17,338,439)	(15,897,208)
Net cash used in operating activities	<u>(23,779,711)</u>	<u>(24,439,236)</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Operating grants	26,559,328	19,427,381
Net cash provided by noncapital financing activities	<u>26,559,328</u>	<u>19,427,381</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Acquisition or construction of capital assets	(8,221,978)	(155,225)
Sale of capital assets	141,710	68,238
Capital grants	6,779,774	99,105
(Repayments of) proceeds from notes payable	(818,481)	818,481
Net cash (used in) provided by capital and related financing activities	<u>(2,118,975)</u>	<u>830,599</u>
CASH FLOWS FROM INVESTING ACTIVITIES		
Insurance proceeds received	47,299	126,671
Interest received	4,863	6,869
Net cash provided by investing activities	<u>52,162</u>	<u>133,540</u>
Increase (decrease) in cash and cash equivalents	712,804	(4,047,716)
Cash and cash equivalents:		
Beginning of year	<u>3,990,193</u>	<u>8,037,909</u>
End of year	<u>\$ 4,702,997</u>	<u>\$ 3,990,193</u>
Reconciliation of operating loss to net cash used in operating activities:		
Operating loss	\$ (27,592,371)	\$ (28,674,557)
Adjustments to reconcile operating loss to net cash used in operating activities:		
Depreciation expense	2,168,544	3,286,985
Changes in assets and liabilities:		
Decrease in accounts receivable, net	186,488	424,694
(Increase) decrease in inventory	63,718	(52,363)
Decrease in prepaid expenses	699,532	23,739
Increase (decrease) in accounts payable and accrued liabilities	156,980	(807,808)
Increase in accrued payroll and withholdings	78,758	96,861
Increase (decrease) in accrued retirement plan contribution	(11,618)	11,618
Increase in net pension plan liability	595,387	1,134,034
Increase (decrease) in compensated employee absences	(125,129)	117,561
Net cash used in operating activities	<u>\$ (23,779,711)</u>	<u>\$ (24,439,236)</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, distributes these funds to the local entities. Because the grant assistance and expenses are not directly related to the Authority's operations, the pass-thru funding expenses are netted against the federal/state pass-thru grant assistance in nonoperating revenues in the accompanying statements of revenues, expenses and changes in net position. For the years ended September 30, 2013 and 2012, federal pass-thru grant assistance totaled \$3,109,191 and \$3,536,233, respectively, and pass-thru funding expenses totaled \$2,927,514 and \$3,720,618, 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 fuel and lubricants used for operating the Authority's buses and other vehicles and are accounted for on the consumption method.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Restricted Assets

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

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, 2013 and 2012, accrued compensated employee absences totaled \$633,463 and \$758,592, 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.

NOTES TO FINANCIAL STATEMENTS

NOTE 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Reclassifications

Certain amounts in the 2012 financial statements have been reclassified to conform to the 2013 presentation, with no effect on total assets or the change in net position.

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, 2013, the carrying amount of the Authority's bank deposits and cash on hand was \$4,702,997 and the bank balance was \$8,162,734.

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, 2013 and 2012 was \$6,826,348 and \$7,896,628, respectively. The unrestricted cash balance, less short-term payables, as of September 30, 2013 and 2012 was \$2,843,887 and \$2,681,155, respectively. Accordingly, the Authority is not in compliance with the cash reserve requirement.

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, 2013 and 2012. The self-insurance health plan reserves are accrued as a liability in the accompanying statements of net position.

NOTES TO FINANCIAL STATEMENTS

NOTE 5. NOTES PAYABLE

The Authority entered into a Premium Finance Agreement with First Insurance Funding to finance a substantial portion of the annual insurance premium for an insurance policy issued by Alabama Municipal Insurance Corporation. The full amount of the insurance premium was \$1,000,400. A downpayment of \$93,039 was made at the execution of the agreement, leaving a balance of \$907,361. Interest expense under the agreement total \$12,543 and \$4,159 for the years ended September 30, 2013 and 2012, respectively, based upon an interest rate of 5.50%. Twelve monthly payments of \$93,039 beginning October 1, 2012 were required to fully retire the obligation by October 1, 2013. On January 22, 2013, the note was fully repaid.

NOTE 6. CAPITAL ASSETS

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

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

	Balance at October 1, 2011	Additions	Deductions	Balance at September 30, 2012
Capital assets not being depreciated:				
Land	\$ 1,358,922	\$ -	\$ -	\$ 1,358,922
Construction in progress	715,628	152,338	(594,741)	273,225
Total capital assets not being depreciated	2,074,550	152,338	(594,741)	1,632,147
Capital assets being depreciated:				
Buildings and improvements	10,816,058	527,824	(15,104)	11,328,778
Buses and vehicles	29,931,512	-	(335,650)	29,595,862
Machinery and equipment	6,242,418	37,116	(16,935)	6,262,599
Furniture and fixtures	917,934	32,686	(58,412)	892,208
Total capital assets being depreciated	47,907,922	597,626	(426,101)	48,079,447
Less accumulated depreciation	30,018,054	(3,286,985)	6,180,018	32,911,087
Total capital assets being depreciated, net	17,889,868	3,884,611	(6,606,119)	15,168,360
Total capital assets, net	\$ 19,964,418	\$ 4,036,949	\$ (7,200,860)	\$ 16,800,507

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 for each is based on the actuarial report for the fiscal year 2013. Those amounts are as follows:

	Employees' Retirement Plan
Contribution rates:	
Authority	20.5%
Plan members	3.5%
Annual pension cost (APC)	\$2,697,061
Actual 2013 contributions:	
Authority	\$2,101,674
Plan members	\$259,969
Actuarial valuation date	January 1, 2012
Actuarial cost method	Unit credit
Amortization method	Level amortization
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, 2013 and 2012 as reported by the actuarial reports for each respective year:

	September 30,	
	2013	2012
Annual required contributions (ARC)	\$ 3,117,590	\$ 2,940,464
Interest on NPO	679,940	600,558
Adjustment to ARC	(1,100,469)	(940,574)
Annual pension cost	2,697,061	2,600,448
Contributions made	(2,101,674)	(1,466,414)
Increase in NPO	595,387	1,134,034
NPO – September 30, 2012	9,713,735	8,579,701
NPO – September 30, 2013	\$ 10,309,122	\$ 9,713,735

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, 2013.

	Annual Pension Cost (APC)	Actual Contributions	Percentage Of APC Contributions	Net Pension Obligation
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
September 30, 2011	\$ 2,685,711	\$ 1,193,450	44.40%	\$ 8,579,401

The net pension obligation (NPO) 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, 2012 and 2011, the actuarial valuation dates for the fiscal years ended September 30, 2013 and 2012, respectively, as reported in the actuarial reports for each respective year:

	January 1,	
	2012	2011
Actuarial accrued liability	\$ 28,084,848	\$ 27,419,290
Less market value of plan assets	7,485,306	8,321,262
Unfunded actuarial liability	<u>\$ 20,599,542</u>	<u>\$ 19,098,028</u>
Funded ratio (Plan assets/Actuarial liability)	<u>26.65%</u>	<u>30.35%</u>
Annual covered payroll	\$ 7,326,674	\$ 6,927,105
Unfunded actuarial liability to covered payroll	<u>281.16%</u>	<u>275.70%</u>

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 balance sheet 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 similar to those amounts presented in the table above with certain changes in the way those amounts are computed. These changes 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 will adopt 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, the net pension liability will equal approximately \$17.9 million compared to the net pension obligation which will equal approximately \$11.2 million causing the effect of adopting GASB 68 to be a charge of approximately \$6.7 million to net position. However, these amounts are estimates and could change with the new calculation methodologies described above that GASB 68 will implement.

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 invested in their accounts if they were participating in the Administrative Plan on the effective date (November 29, 1995). Otherwise, employees will become fully invested after completing one year of credit service. Retirement plan expense for the Administrative Plan for the years ended September 30, 2013 and 2012 was \$144,000 and \$155,618, 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.

During 2013, the Board of Directors authorized the Authority to purchase thirty-seven (37) new buses, thirty (30) of which are natural gas powered and seven (7) are diesel powered. As of September 30, 2013, seventeen of these buses had been purchased. The remaining twenty buses will be purchased during the fiscal year ended September 30, 2014 for an aggregate amount of approximately \$6.8 million. These purchases will be funded primarily with federal capital grant contributions from the Federal Transportation Administration.

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 will total \$50,000 for the fiscal year ended September 30, 2014 and \$25,000 for the fiscal year ended September 30, 2015.

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; and natural disasters.

An estimated liability of \$50,000 has been reported as of September 30, 2013 and 2012, for outstanding claims or for any potential claims incurred but not reported as of that date. Settled claims have not exceeded these commercial coverages by any material amounts during the years ended September 30, 2013, 2012 and 2011.

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, 2013 and 2012 was \$150,000. Activity within the Plan for the years ended September 30, 2013 and 2012 are as follows:

	Beginning Balance	Employer Contributions and Changes in Estimates	Claims Paid	Ending Balance
2013	\$ 150,000	\$ 2,335,360	\$ (2,335,360)	\$ 150,000
2012	\$ 150,000	\$ 1,719,813	\$ (1,719,813)	\$ 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 February 21, 2014, 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, 2012, 2011 and 2010, the actuarial valuation dates for the fiscal years ended September 30, 2013, 2012 and 2011, respectively, as reported by the actuarial reports for each respective year:

	January 1,		
	2012	2011	2010
Actuarial accrued liability	\$ 28,084,848	\$ 27,419,290	\$ 27,786,570
Less market value of plan assets	7,485,306	8,321,262	8,255,626
Unfunded actuarial liability	\$ 20,599,542	\$ 19,098,028	\$ 19,530,944
Funded ratio (Plan assets/Actuarial liability)	26.65%	30.35%	29.71%
Annual covered payroll	\$ 7,326,674	\$ 6,927,105	\$ 7,132,686
Unfunded actuarial liability to covered payroll	281.16%	275.70%	273.82%

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 statement of net position as of September 30, 2013, and the related statement of revenues, expenses and changes in net position and cash flows for the year 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 February 21, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit 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.

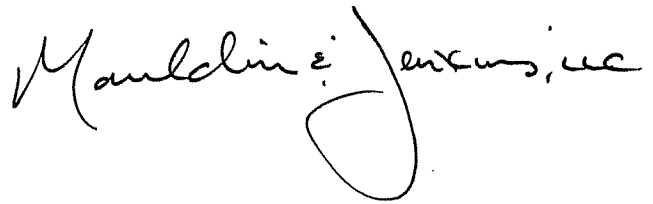
Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not 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 that reads "Mauldin & Jenkins, LLC". The signature is written in a cursive, flowing style with a large loop at the end.

Birmingham, Alabama
February 21, 2014



**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, 2013. 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, 2013.

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 audit 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, 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
February 21, 2014

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS YEAR ENDED SEPTEMBER 30, 2013

Direct Program:	Federal	Funds
U.S. Department of Transportation – Direct Programs	CFDA	Expended
	Number	
Federal Transit Capital Investment Grants	20.500	\$ 1,786,799
Federal Transit Formula Grants	20.507	11,065,148
Total Federal Transit Cluster		<u>12,851,947</u>
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	2,479,223
Job Access Reverse Commute	20.516	130,063
New Freedom Program	20.521	39,500
Total Transit Services Programs Cluster		<u>2,648,786</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS		<u>\$ 15,500,733</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, 2013

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, 2013

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

Name of Federal Program or Cluster

Federal Transit Cluster

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

\$465,022

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.