

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY

FINANCIAL STATEMENTS

September 30, 2012 and 2011

With Independent Auditor's Report

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
Birmingham, Alabama

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying statements of financial position of the Birmingham-Jefferson County Transit Authority ("the Authority") as of September 30, 2012 and 2011, and the related statements of activities and cash flows for the years then ended. These financial statements are the responsibility of the Authority's management. 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 audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and the significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Authority as of September 30, 2011 and 2010, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated January 25, 2013, on our consideration of the 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* and should be considered in assessing the results of our audits.



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

January 25, 2013

Banks, Finley White & Co.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
STATEMENTS OF FINANCIAL POSITION
September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 3,825,354	\$ 7,872,358
Cash - restricted	164,839	165,551
Accounts receivable, net	3,460,542	984,420
Grants receivable	12,190,040	9,723,628
Inventory	152,731	100,366
Prepaid insurance	<u>1,441,175</u>	<u>1,464,914</u>
Total current assets	<u>21,234,681</u>	<u>20,311,237</u>
Noncurrent assets:		
Utility deposits	7,000	7,000
Capital assets:		
Land	1,358,922	1,358,922
Buildings and improvements	11,328,778	10,816,058
Buses and vehicles	29,595,862	29,931,512
Machinery and equipment	6,262,599	6,242,418
Furniture and fixtures	892,208	917,934
Construction in progress	273,225	715,628
Less: accumulated depreciation	<u>(32,911,087)</u>	<u>(30,018,054)</u>
Total capital assets	<u>16,800,507</u>	<u>19,964,418</u>
Total non-current assets	<u>16,807,507</u>	<u>19,971,418</u>
Total assets	<u>\$ 38,042,188</u>	<u>\$ 40,282,655</u>
LIABILITIES AND NET ASSETS		
Current liabilities:		
Accounts payable and accrued expenses	\$ 922,937	\$ 1,730,742
Accrued payroll and withholdings	505,122	408,261
Accrued pension liability	9,869,053	8,723,401
Notes payable	818,481	
Self insurance liability	<u>150,000</u>	<u>150,000</u>
Total current liabilities	<u>12,265,593</u>	<u>11,012,404</u>
Noncurrent liabilities:		
Compensated employee absences	758,592	641,032
Uninsured liabilities and damage claims	<u>50,000</u>	<u>50,000</u>
Total non-current liabilities	<u>808,592</u>	<u>691,032</u>
Total liabilities	<u>13,074,185</u>	<u>11,703,436</u>
NET ASSETS		
Unrestricted net assets	<u>24,968,003</u>	<u>28,579,219</u>
Total liabilities and net assets	<u>\$ 38,042,188</u>	<u>\$ 40,282,655</u>

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
OPERATING REVENUES		
Passenger fares	\$ 2,373,968	\$ 2,152,963
Federal Grant Assistance	9,378,310	17,390,780
Local Operating Assistance:		
Local funding	13,171,322	13,391,214
Ad Valorem tax	6,064,697	7,028,101
Other revenues	<u>104,355</u>	<u>85,123</u>
Total operating revenues	<u>31,092,652</u>	<u>40,048,181</u>
OPERATING EXPENSES		
Salaries	10,650,102	10,100,544
Depreciation	3,286,985	3,577,480
Fuel and lubricants	1,586,694	1,527,285
Health insurance and medical services	2,094,269	2,469,149
Equipment repairs	3,936,452	2,621,749
Retirement and pension expense	3,372,054	3,107,169
Pass-Through Funding	3,720,618	4,119,091
Insurance	1,388,973	1,471,015
Employment taxes	784,674	795,896
Vehicle maintenance	457,006	359,617
Worker's compensation insurance	356,544	386,355
Interest expense	4,159	
Utilities	549,665	505,748
Vehicle cleaning and towing	125,120	101,440
Tires	357,692	281,537
Computers and software	3,186	57,776
Security services	232,992	164,365
Legal	446,931	128,702
Temporary labor	277,466	158,897
Other contracted services	475,849	240,486
Life insurance	63,438	64,220
Janitorial and building supplies	163,028	146,690
Uniforms	105,040	112,592
Printing and copying	84,664	68,651
Facility maintenance	55,694	66,132
Audit	26,218	25,704
Travel	24,044	9,219
General office supplies	19,897	19,190
Miscellaneous	36,871	56,214
Meetings	30,205	20,246
Minor equipment	27,955	21,343
Dues and subscriptions	36,694	35,218
Lease and rentals	11,144	135,901
Postage	4,199	4,349
Waste oil removal	18,266	17,358
Education	11,346	17,901
Advertising	<u>47,364</u>	<u>2,498</u>
Total operating expenses	<u>34,873,498</u>	<u>32,997,727</u>
OTHER REVENUES (EXPENSES)		
Income on investments	6,869	8,077
Insurance proceeds	126,671	65,614
(Gain) loss on sale of fixed assets	<u>36,090</u>	<u>70,950</u>
Total other revenues (expenses)	<u>169,630</u>	<u>144,641</u>
 Increase in net assets	 (3,611,216)	 7,195,095
Net assets, beginning of the year	<u>28,579,219</u>	<u>21,384,124</u>
Net assets, end of the year	<u>\$ 24,968,003</u>	<u>\$ 28,579,219</u>

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
STATEMENTS OF CASH FLOWS
For the years ended September 30, 2012 and 2011

	<u>2012</u>	<u>2011</u>
CASH FLOWS FROM OPERATING ACTIVITIES		
Change in net assets	\$ (3,611,216)	\$ 7,195,095
Adjustments to reconcile change in net assets to net cash used for operating activities:		
Depreciation	3,286,985	3,577,480
Loss (gain) from sales of fixed assets	(36,090)	(70,950)
Change in assets and liabilities:		
Accounts receivable (net)	(2,476,122)	1,861,486
Grants receivable	(2,466,412)	(758,875)
Inventory	(52,363)	33,981
Prepaid insurance	23,739	(40,527)
Accounts payable	(807,805)	32,326
Accrued payroll related expenses	96,861	(75,400)
Accrued pension liability	1,145,652	1,503,760
Notes payable	818,481	
Self-insurance liability		(9,077)
Compensated employee absences	<u>117,561</u>	<u>10,298</u>
Total adjustments	<u>(349,513)</u>	<u>6,064,502</u>
Net cash provided by operating activities	<u>(3,960,729)</u>	<u>13,259,597</u>
CASH USED BY INVESTING ACTIVITIES		
Construction in progress	442,403	(208,329)
Purchase of capital assets	(597,628)	(7,928,497)
Proceeds from disposal of capital assets	<u>68,238</u>	<u>70,951</u>
Net cash provided (used) by investing activities	<u>(86,987)</u>	<u>(8,065,875)</u>
Net change in cash	(4,047,716)	5,193,722
Cash at beginning of the year	<u>8,037,909</u>	<u>2,844,187</u>
Cash at end of the year	<u>\$ 3,990,193</u>	<u>\$ 8,037,909</u>

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 ORGANIZATION AND REPORTING ENTITY

A. 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.

B. Reporting Entity

The Authority meets the criteria set forth in generally accepted accounting principles as promulgated by the Governmental Accounting Standards Board (GASB) for inclusion as a component unit within the City's general purpose financial statements based on the City's responsibility for the appointment of the Authority's members, and their approval of capital programs and certain debt issuances and the Authority's annual operating budget. As a component unit of the City, the Authority's financial statements are discretely presented on the City's general purpose financial statements. 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

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 governmental accounting and financial reporting principles. The Authority has applied all applicable GASB pronouncements, as well as all Financial Accounting Standards Board (FASB) statements and interpretations except those which contradict applicable GASB pronouncements.

The Authority's activities are accounted for similar to those often found in the private sector using the flow of economic resources measurement focus and the accrual basis of accounting. All assets, liabilities, net assets, revenues, and expenses are accounted for through a single enterprise fund with revenues recorded when earned and expenses recorded at the time liabilities are incurred.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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. Interest expense and financing costs are reported as non-operating expenses. The following is a summary of the more significant policies:

A. Revenue Recognition

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

B. 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.

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 Assets, after non-operating revenues and expenses, as capital contributions.

C. 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.

D. Investments

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

E. 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.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

F. Inventory

Inventory is stated at average cost. It consists of fuel and lubricants used for operating the Authority's buses and other vehicles.

G. Restricted Assets

Restricted assets consist of monies and other resources which are restricted for the Authority's Self-Insurance Plan.

H. Fixed Assets

Fixed assets, which include property, plant, rolling stock (buses and other vehicles) and equipment, are reported in the statement of net assets 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:

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 fixed 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 \$5,000. Maintenance and repairs are expensed as incurred.

I. Interest Capitalization

Interest cost related to construction financing is capitalized, net of interest revenue earned on the borrowed proceeds, from the time of borrowing until construction is substantially complete and the asset is placed in service. No interest was capitalized in 2012.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

J. Compensated Absences

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). They receive five personal days and one floating holiday. Contract employees are eligible for sick leave after one year. They receive seven (7) 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 vacation pay. As of September 30, 2012 and 2011, accrued vacation pay totaled \$758,592 and \$641,032, respectively.

K. Advertising Cost

Advertising cost is expensed as incurred.

L. Use of 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.

NOTE 3 CASH AND CASH EQUIVALENTS

It is the Authority's policy to invest only in obligations of the U.S. Treasury, U.S. Government Agencies, State of Alabama obligations, and short-term bank certificates of deposit.

The Authority's cash and investments 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, 2012, the carrying amount of the Authority's deposits, certificates of deposits and cash on hand was \$3,825,354 and the bank balance was \$4,281,922.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

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.

Credit Risk

Credit risk is the possibility that the issuer/counterparty to an investment will be unable to fulfill its obligations. As of September 30, 2012 and 2011, the Cash - Restricted had a market value of \$164,839 and \$165,551, respectively.

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.

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.

Interest Rate Risk

Interest rate risk is the possibility that an interest rate change could adversely affect an investment's fair value. The investments of the Authority are not exposed to interest rate risk.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

NOTE 4 LONG-TERM DEBT

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. Finance charges under the agreement total \$23,030 based upon an interest rate of 5.50%. Twelve (12) monthly payments of \$93,039 beginning on October 1, 2012 will be required to fully retire the obligation by October 1, 2013. As of September 30, 2012 the outstanding balance on the agreement was \$818,481. As of January 25, 2013, the note has been fully retired.

NOTE 5 CHANGES IN CAPITAL ASSETS

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

<u>Governmental Activities</u>	<u>Balance at 10/01/2011</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance at 9/30/2012</u>
Capital assets not being depreciated:				
Land	\$ 1,358,922	\$	\$	\$ 1,358,922
Construction in progress	<u>715,628</u>	<u>152,338</u>	<u>(594,741)</u>	<u>273,225</u>
Total capital assets, not being depreciated	<u>2,074,550</u>	<u>152,338</u>	<u>(594,741)</u>	<u>1,632,147</u>
Capital assets being depreciated:				
Buildings and improvements	10,816,058	527,824	(15,104)	11,328,778
Buses	29,931,512		(335,650)	29,595,862
Machinery and equipment	6,242,418	37,116	(16,935)	6,262,599
Furniture and fixtures	<u>917,934</u>	<u>32,686</u>	<u>(58,412)</u>	<u>892,208</u>
Total fixed assets being depreciated	<u>47,907,922</u>	<u>597,626</u>	<u>(426,101)</u>	<u>48,079,447</u>
Less accumulated depreciation	30,018,054	(3,286,985)	6,180,018	32,911,087
Total capital assets being depreciated, net	<u>17,889,868</u>	<u>3,884,611</u>	<u>(6,606,119)</u>	<u>15,168,360</u>
Total capital assets, net	<u>\$ 19,964,418</u>	<u>\$ 4,036,949</u>	<u>\$ (7,200,860)</u>	<u>\$ 16,800,507</u>

NOTE 6 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.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

Substantially all non-temporary, full-time employees who have completed one year 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 credit 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 Employee 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 2012. Those amounts are as follows:

Employees' Plan	
Pension and Healthcare	
Contribution rates:	
Authority	20.5%
Plan members	3.5%
Annual pension cost (APC)	\$2,600,448
Actual 2012 contributions:	
Authority	\$1,466,414
Plan members	\$248,313
Actuarial valuation date	January 1, 2012
Actuarial cost method	Unit credit
Amortization method	Level amortization
Remaining amortization period	15 and 30 years
Asset valuation method	Fair Market Value
Actuarial assumptions:	
Investments rate of return	7.00%
Projected salary increase	2.5%
Inflation rates	No future increases expected

The following represents the significant components of the annual required contribution (ARC) and changes in net pension obligation (NPO) during the fiscal year ended September 30, 2012 and 2011 as reported by the actuarial reports for each respective year:

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

	<u>2012</u>	<u>2011</u>
Annual required contributions (ARC)	\$ 2,940,464	\$ 2,941,858
Interest on NPO	600,558	496,100
Adjustment to ARC	<u>(940,574)</u>	<u>(752,247)</u>
Annual pension cost	2,600,448	2,685,711
Contributions made	<u>(1,466,414)</u>	<u>(1,193,450)</u>
Increase in NPO	1,134,034	1,492,261
NPO - September 30, 2011	<u>8,579,701</u>	<u>7,087,440</u>
NPO - September 30, 2012	<u>\$ 9,713,735</u>	<u>\$ 8,579,701</u>

Three-year Trend Information

The following summarizes fund information for the Plan, as presented in the actuarial report for the year ended September 30, 2012.

	<u>Annual Pension Cost (APC)</u>	<u>Actual Contributions</u>	<u>Percentage of APC Contributions</u>	<u>Net Pension Obligations</u>
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
September 30, 2010	\$ 1,921,433	\$ 916,297	47.70 %	\$ 7,087,140

The Authority's payroll for employees covered by the pension plan as presented in the actuarial report for the year ended September 30, 2012, was \$6,927,105, and the total payroll was \$7,132,686.

The pension benefit obligation is a standardized 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.

NOTE 7 DEFINED CONTRIBUTION PLAN

The Authority is the sponsor of a defined contribution money purchase pension plan for administrative employees. Under the administrative plan, for employees who have completed one-half year of continuous full-time service, the Authority contributes 5 percent of annual compensation of eligible non-contract employees.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

The participants are fully-invested in their accounts if they were participating in the Plan on the effective dated (November 29, 1995). Otherwise, employees will become fully-invested after completing one year of credit service. Retirement plan expense for the money purchased plan for the years ended September 30, 2012 and 2011 was \$155,618 and \$144,000, respectively.

Investments in the plan are managed by the plan administrator. Assets of the plan are immaterial to the Authority's financial statements and are not reflected in the financial statements.

NOTE 8 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, 2012 and 2011, 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 year ended September 30, 2012.

NOTE 9 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. Claims paid for the years ended September 30, 2012 and 2011 total \$1,719,813 and \$1,928,413, respectively. The estimated liability at September 30, 2012 and 2011 was \$150,000 and \$150,000, respectively.

NOTE 10 CASH RESERVES

Authority policies requires the maintenance of a three month cash reserve. The cash reserve requirement for the year ended September 30, 2012 and 2011 was \$7,896,628 and \$7,355,062, respectively. The unrestricted cash balance as of September 30, 2012 and 2011 was \$2,681,155 and \$1,245,673, respectively. Accordingly, the Authority is not in compliance with the cash reserve requirement.

NOTE 11 RECENTLY ISSUED ACCOUNTING STANDARDS

In June 2012, the GASB issued Statement No. 65 — *Items Previously Reported as Assets and Liabilities*. The objective of this Statement is to either (a) properly classify certain items that were previously reported as assets and liabilities as deferred outflows of resources or deferred inflows of resources or (b) recognize certain items that were previously reported as assets and liabilities as outflows of

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

resources (expenses or expenditures) or inflows of resources (revenues). These determinations are based on the definitions of those elements in Concepts Statement No. 4, Elements of Financial Statements. The requirements of this Statement are effective for financial statements for periods beginning after December 15, 2012 and its adoption will not have have a material effect on the Authority's basic financial statements.

In June 2012, the GASB issued Statement No. 66 — ***Technical Corrections—2012—an amendment of GASB Statements No. 10 and No. 62.*** The objective of this Statement is to improve accounting and financial reporting by state and local governmental entities by resolving conflicting guidance that resulted from the issuance of two pronouncements—Statements No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, and No. 62, Codification of Accounting and Financial Reporting Guidance Contained in Pre-November 30, 1989 FASB and AICPA Pronouncements. Since the release of these Statements, questions have arisen concerning differences between the provisions in Statement 54 and Statement No. 10, Accounting and Financial Reporting for Risk Financing and Related Insurance Issues, regarding the reporting of risk financing activities. Questions also have arisen about differences between Statement 62 and Statements No. 13, Accounting for Operating Leases with Scheduled Rent Increases, regarding the reporting of certain operating lease transactions, and No. 48, Sales and Pledges of Receivables and Future Revenues and Intra-Entity Transfers of Assets and Future Revenues, concerning the reporting of the acquisition of a loan or a group of loans and the recognition of servicing fees related to mortgage loans that are sold. The provisions of this Statement are effective for financial statements for periods beginning after December 15, 2012 and its adoption will not have have a material effect on the Authority's basic financial statements.

In June 2012, the GASB issued Statement No. 67 — ***Financial Reporting for Pension Plans—an amendment of GASB Statement No. 25.*** The objective of this Statement is to improve the usefulness of pension information included in the general purpose external financial reports (financial reports) of state and local governmental pension plans for making decisions and assessing accountability. This Statement is effective for financial statements for fiscal years beginning after June 15, 2013 and its adoption will not have have a material effect on the Authority's basic financial statements.

In June 2012, the GASB issued Statement No. 68 — ***Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27.*** The principal objective of this Statement is to improve the usefulness of information for decisions made by the various users of the general purpose external financial reports (financial reports) of governments whose employees—both active employees and inactive employees—are provided with pensions. One aspect of that objective is to provide information about the effects of pension-related transactions and other events on the elements of the basic financial statements of

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

state and local governmental employers. This information will assist users in assessing the relationship between a government's inflows of resources and its total cost (including pension expense) of providing government services each period. Another aspect of that objective is to provide users with information about the government's pension obligations and the resources available to satisfy those obligations.

An additional objective of this Statement is to improve the information provided in government financial reports about pension-related financial support provided by certain nonemployer entities that make contributions to pension plans that are used to provide benefits to the employees of other entities. This Statement is effective for fiscal years beginning after June 15, 2014 and its adoption will not have have a material effect on the Authority's basic financial statements.

In January 2013, the GASB issued Statement No. 69 — ***Government Combinations and Disposals of Government Operations***. The objective of this Statement is to improve financial reporting by addressing accounting and financial reporting for government combinations and disposals of government operations. The term government combinations is used in this Statement to refer to a variety of arrangements including mergers and acquisitions. Government combinations also include transfers of operations that do not constitute entire legally separate entities and in which no significant consideration is exchanged. Transfers of operations may be present in shared service arrangements, reorganizations, redistricting, annexations, and arrangements in which an operation is transferred to a new government created to provide those services. The requirements of this Statement are effective for government combinations and disposals of government operations occurring in financial reporting periods beginning after December 15, 2013, and should be applied on a prospective basis. Its adoption will not have have a material effect on the Authority's basic financial statements.

NOTE 12 MANAGEMENT REVIEW

Management has evaluated subsequent events through January 25, 2013, the date the financial statements were available to be issued.

**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 of the
Birmingham-Jefferson County Transit Authority
Birmingham, Alabama

We have audited the financial statements of the Birmingham-Jefferson County Transit Authority ("the Authority") as of and for the year ended September 30, 2012, and have issued our report thereon dated January 25, 2013. 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.

Internal Control Over Financial Reporting

Management of the Authority is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the Authority's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Authority's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Authority's internal control over financial reporting.

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.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.



To the Board of Directors of the
Birmingham-Jefferson County Transit Authority
Birmingham, Alabama
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Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Authority's financial statements are free of 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*.

This report is intended solely for the information and use of management, others within the Authority, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 25, 2013

Bank, Finley White & Co.

**REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE
TO EACH MAJOR PROGRAM AND ON INTERNAL CONTROL
OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133**

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

Compliance

We have audited the compliance of the Birmingham-Jefferson County Transit Authority ("the Authority") with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended September 30, 2012. The Authority's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Authority's management. Our responsibility is to express an opinion on the Authority's compliance based on our audit.

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 for 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 the 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. Our audit does not provide a legal determination of the Authority's compliance with those requirements.

In our opinion, the Authority complied, in all material respects, with the 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, 2012.



To the Board of Directors of the
Birmingham-Jefferson County Transit Authority
Birmingham, Alabama
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Internal Control Over Compliance

The management of the Authority is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Authority's internal control over compliance with the requirements that could have a direct and material effect on a major federal program to determine the auditing procedures for the purpose of expressing our opinion on compliance 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 the 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.

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 deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information of management, the Board of Directors, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

January 25, 2013

Bank, Fenley White 'Co.

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
For the year ended September 30, 2012

Direct Program:

U. S. Department of Transportation - Direct Programs

	<u>CFDA Number</u>	<u>Funds Expended</u>
Federal Transit Capital Investment Grants	20.500	\$ 1,310,021
Federal Transit Formula Grants	20.507	3,397,742
Capital Assistance Program for Elderly Persons and Persons with Disabilities	20.513	1,227,700
Job Access Reverse Commute	20.516	509,538
New Freedom Program	20.521	<u>519,886</u>

Total Expenditures of Federal Awards

\$ 6,964,887

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
NOTE TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards include the federal grant activity of the 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 Non-Profit Organizations."

BIRMINGHAM-JEFFERSON COUNTY TRANSIT AUTHORITY
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
For the year ended September 30, 2012

Section I--Summary of Auditor's Results

Financial Statements

Type of auditor's report issued:

Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported
- Noncompliance material to financial statements noted? ☐ Yes ☒ No

Federal Awards

Internal control over major programs:

- Material weakness(es) identified? ☐ Yes ☒ No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? ☐ Yes ☒ None reported

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

Unqualified

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

☐ Yes ☒ No

Identification of major programs:

CFDA Numbers

Name of Federal Program or Cluster

20.513

Capital Assistance Program for Elderly
Persons and Persons with Disabilities
Job Access Reverse Commute
New Freedom Program

20.516

20.521

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

\$300,000

Auditee qualified as low-risk auditee?

☒ Yes ☐ No

Section II--Financial Statement Findings

None reported.

Section III--Federal Award Findings and Questioned Costs

None reported.