

**City of Kalamazoo, Michigan**

**SUPPLEMENTARY INFORMATION  
TO FINANCIAL STATEMENTS  
(FEDERAL AWARDS)**

**December 31, 2014**

City of Kalamazoo

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

Honorable Mayor and  
Members of the City Commission  
City of Kalamazoo, Michigan

**Report on Compliance for Each Major Federal Program**

We have audited the City of Kalamazoo, Michigan's (the City) 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 the City's major federal programs for the year ended December 31, 2014. The City'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 the City'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 Nonprofit 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 City'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 City's compliance.

***Opinion on Each Major Federal Program***

In our opinion, the City of Kalamazoo, Michigan, 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 December 31, 2014.

## Report on Internal Control Over Compliance

Management of the City 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 the City'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 the City's internal control over compliance.

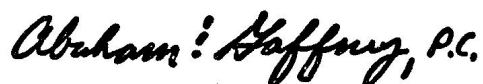
*A deficiency in internal control over compliance* exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement 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.

## Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan, as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We did not audit the financial statements of the City of Kalamazoo Downtown Development Authority (a discretely presented component unit) which represents 5 percent, -4 percent, and 20 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We issued our report thereon dated June 22, 2015, which contained unmodified opinions on those financial statements based on our audit and the reports of other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 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 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.



ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 22, 2015

City of Kalamazoo

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Federal Expenditures
<b>U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT</b>			
Direct programs:			
Community Development Block Grants	14.218		
Program Year 2011-12		N/A	\$ 29,237
Program Year 2012-13		N/A	37,187
Program Year 2013-14		N/A	634,732
Program Year 2014-15		N/A	174,483
General Program Administration		N/A	245,616
Program Delivery		N/A	<u>408,475</u>
			1,529,730
Emergency Solutions Grant Program	14.231		
Program Year 2013-14		N/A	98,930
Program Year 2014-15		N/A	33,571
Administration		N/A	<u>382</u>
			132,883
Home Investment Partnerships Program	14.239		
CDBG Home Administration		N/A	76,482
Program Year 2011-12		N/A	25,067
Program Year 2012-13		N/A	21,427
Program Year 2013-14		N/A	425,162
Program Year 2014-15		N/A	<u>102,390</u>
			<u>650,528</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,313,141
<b>U.S. DEPARTMENT OF JUSTICE</b>			
Direct programs:			
Bulletproof Vest Partnership Program 2014	16.607		
		N/A	6,618
Public Safety Partnership and Community Policing Grants 2014	16.710		
		N/A	375,000
Edward Byrne Memorial Justice Assistance Grant Program	16.738		
Program Year 2011		N/A	10,210
Program Year 2012		N/A	7,622
Program Year 2013		N/A	13,381
Program Year 2014		N/A	<u>67,498</u>
			<u>98,711</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			480,329

City of Kalamazoo

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2014

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Federal Expenditures
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>			
Direct programs:			
Federal Transit - Capital Investment Grants <sup>(a) (b)</sup>	20.500		
Capital Grant - Section 5309		N/A	\$ 1,225,298
Capital Grant - Section 5309		N/A	218,915
Capital Grant - Section 5309		N/A	<u>7,839</u>
			1,452,052
Federal Transit - Formula Grants <sup>(a) (b)</sup>	20.507		
Capital Grant - Section 5307		N/A	87,386
Capital Grant - Section 5307		N/A	29,129
Capital Grant - Section 5307		N/A	29,129
Capital Grant - Section 5307		N/A	152,625
Capital Grant - Section 5307		N/A	174,773
Operating Grant - Section 5307		N/A	<u>2,383,966</u>
			2,857,008
Passed through Michigan Department of Transportation			
Formula Grants for Rural Areas	20.509		
Operating Assistance - Section 5311 (FY 14)		MI-18-X055/2012-0112/P12	9,700
Operating Assistance - Section 5311 (FY 15)		MI-18-X055/2012-0112/P15	<u>6,904</u>
			16,604
New Freedom Program			
Capital Grant - Section 5317	20.521		
		MI-57-X010/2012-0112/P10	<u>64,981</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			4,390,645
<b>ENVIRONMENTAL PROTECTION AGENCY</b>			
Passed through Michigan Department of Environmental Quality			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	<u>31,759</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 7,215,874</u>

City of Kalamazoo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2014

**NOTE A: BASIS OF PRESENTATION**

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Kalamazoo, Michigan, and is presented on the modified 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, which are reconciled in Note C.

**NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE**

The following descriptions identified below as (a) - (b) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Denotes programs required to be clustered by the United States Department of Transportation.
- (b) Denotes program tested as a "major program".

**NOTE C: RECONCILIATION TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE EXPENDITURES**

The following reconciles the intergovernmental revenues reported in the December 31, 2014, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	Federal/ State/Local Revenue	Less: State/Local Revenue	Federal Award Expenditures
PRIMARY GOVERNMENT			
GENERAL FUND	\$ 9,487,305	\$ 9,487,305	\$ -0-
SPECIAL REVENUE FUNDS			
Neighborhood and Community Development	2,313,141	-	2,313,141
Grants and Donations	890,472	410,143	480,329
Other programs	6,581,673	6,581,673	-0-
Total Special Revenue Funds	9,785,286	6,991,816	2,793,470
CAPITAL PROJECTS FUNDS	89,500	89,500	-0-
ENTERPRISE FUNDS			
Wastewater	100,617	100,617	-0-
Water	924,838	893,079	31,759
Total Enterprise Funds	1,025,455	993,696	31,759
TOTAL PRIMARY GOVERNMENT	20,387,546	17,562,317	2,825,229
COMPONENT UNITS			
Metro Transit	13,195,439	8,804,794	4,390,645
	<u>\$ 33,582,985</u>	<u>\$ 26,367,111</u>	<u>\$ 7,215,874</u>

City of Kalamazoo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2014

**NOTE D: SUBRECIPIENTS**

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards as of December 31, 2014, the City provided federal awards to subrecipients in the amount of \$699,915 from the Community Development Block Grants (CFDA 14.218); \$132,501 from the Emergency Solutions Grant Program (CFDA 14.231); \$574,046 from the Home Investment Partnerships Program (CFDA 14.239); and \$25,004 from the Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.738).



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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

Honorable Mayor and  
Members of the City Commission  
City of Kalamazoo, Michigan

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 financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan (the City) as of and for the year ended December 31, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 22, 2015. We did not audit the financial statements of the City of Kalamazoo Downtown Development Authority (a discretely presented component unit) which represents 5 percent, -4 percent, and 20 percent, respectively, of the assets, net position, and revenues of aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the City of Kalamazoo Downtown Development Authority, are based solely on the report of the other auditors.

**Internal Control Over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City'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 opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City'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 the City's 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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Abraham & Gaffney, P.C.*

ABRAHAM & GAFFNEY, P.C.  
Certified Public Accountants

June 22, 2015

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2014

**Section I - Summary of Auditor's Results**

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**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? \_\_\_\_\_ 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? \_\_\_\_\_ 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 Number(s)	Name of Federal Program or Cluster
20.500, 20.507	Federal Transit Cluster

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

Auditee qualified as low-risk auditee?  X  Yes \_\_\_\_\_ No

**Section II - Financial Statement Findings**

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None noted.

**Section III - Federal Award Findings and Questioned Costs**

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None noted.

City of Kalamazoo

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2014

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

None noted.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2009-4 FORMAL WRITTEN FINANCIAL POLICIES

Condition: During the course of our audit, we noted that while the City has various policies and internal controls in place, formal written financial policies and related internal control documentation has not been compiled into a single publication. We also noted opportunities to clarify certain existing policies, such as the capital assets policy by defining a dollar threshold and implementing a formal process for monitoring and tracking events that could cause a capital asset to be impaired or disposed.

Resolution: The City adopted a formal written financial policy guide in fiscal year 2014. This issue is considered resolved.

Findings Related to Compliance with Requirements Applicable to Federal Awards and Internal Control Over Compliance in Accordance with OMB Circular A-133.

None noted.