

City of Kalamazoo, Michigan

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

December 31, 2016

City of Kalamazoo

TABLE OF CONTENTS

December 31, 2016

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE	1-2
SUPPLEMENTARY INFORMATION	
Schedule of Expenditures of Federal Awards	3-4
Notes to Schedule of Expenditures of Federal Awards	5
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>	6-7
SCHEDULE OF FINDINGS AND QUESTIONED COSTS	8-9
CORRECTIVE ACTION PLAN	10
SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS	11

Principals

Dale J. Abraham, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR FEDERAL PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY THE UNIFORM GUIDANCE

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 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, 2016. 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 federal statutes, regulations, and the terms and conditions of its federal awards 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 *Governmental Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements of Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). Those standards and the Uniform Guidance 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 award 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, 2016.

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 Uniform Guidance, 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 the Uniform Guidance. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by the Uniform Guidance

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, 2016, 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 6 percent, 2 percent, and 24 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We issued our report thereon dated June 28, 2017, 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 the Uniform Guidance 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.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 28, 2017

City of Kalamazoo

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT				
Direct programs:				
Community Development Block Grants ^(a)	14.218			
Program Year 2013-14		N/A	\$ -	\$ 1,293
Program Year 2014-15		N/A	3,969	3,969
Program Year 2015-16		N/A	287,233	490,378
Program Year 2016-17		N/A	21,722	21,722
General Program Administration		N/A	-	194,834
Program Delivery		N/A	-	455,690
			<u>312,924</u>	<u>1,167,886</u>
Emergency Solutions Grant Program	14.231			
Program Year 2015-16		N/A	121,540	121,540
Program Year 2016-17		N/A	30,079	30,079
			<u>151,619</u>	<u>151,619</u>
Home Investment Partnerships Program ^(a)	14.239			
CDBG Home Administration		N/A	-	40,513
Program Year 2013-14		N/A	66,122	66,122
Program Year 2014-15		N/A	215,661	215,661
Program Year 2015-16		N/A	306,546	306,546
Program Year 2016-17		N/A	48,758	48,758
			<u>637,087</u>	<u>677,600</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			1,101,630	1,997,105
U.S. DEPARTMENT OF JUSTICE				
Direct programs:				
Bulletproof Vest Partnership Program 2016	16.607	N/A	-	10,944
Public Safety Partnership and Community Policing Grants 2015	16.710	N/A	-	416,666
2016		N/A	-	416,667
			<u>-0-</u>	<u>833,333</u>
Edward Byrne Memorial Justice Assistance Grant Program	16.738			
Program Year 2014		N/A	-	750
Program Year 2015		N/A	-	11,274
Program Year 2016		N/A	-	63,419
			<u>-0-</u>	<u>75,443</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			-0-	919,720

City of Kalamazoo

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2016

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Entity Identifying Number</u>	<u>Passed Through to Subrecipients</u>	<u>Total Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION				
Direct programs:				
Federal Transit - Formula Grants	20.507			
Capital Grant - Section 5307		N/A	\$ -	\$ 17,388
Capital Grant - Section 5307		N/A	-	17,703
Capital Grant - Section 5307		N/A	-	4,748
Capital Grant - Section 5307		N/A	-	45,017
Capital Grant - Section 5307		N/A	-	13,392
Capital Grant - Section 5307		N/A	-	444,433
Operating Grant - Section 5307		N/A	-	2,383,730
			-0-	2,926,411
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513			
Capital Grant - Section 5310		N/A	-	41,347
Operating Grant - Section 5310		N/A	-	18,291
			-0-	59,638
Passed through Michigan Department of Transportation				
Formula Grants for Rural Areas	20.509			
Operating Assistance - Section 5311 (FY 15)		MI-18-X055/2012-0112/P12	-	10,907
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			-0-	2,996,956
ENVIRONMENTAL PROTECTION AGENCY				
Passed through Michigan Department of Environmental Quality				
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	-	50,878
TOTAL EXPENDITURES OF FEDERAL AWARDS			\$ 1,101,630	\$ 5,964,659

See accompanying notes to the schedule of expenditures of federal awards.

City of Kalamazoo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2016

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 Title 2 U.S. *Code of Federal Regulations* Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirements for Federal Awards* (Uniform Guidance). 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. The City has elected not to use the 10 percent de minimus indirect rate allowed under the Uniform Guidance.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following description identified below as (a) represents an explanations that cross references to amounts on the Schedule of Expenditures of Federal Awards:

(a) Denotes program tested as a “major program”.

NOTE C: RECONCILIATION TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

The following reconciles the intergovernmental revenues reported in the December 31, 2016, 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	\$ 10,244,776	\$ 10,244,776	\$ -0-
SPECIAL REVENUE FUNDS			
Neighborhood and Community Development	1,997,105	-	1,997,105
Grants and Donations	1,570,590	650,870	919,720
Other programs	6,823,648	6,823,648	-0-
Total Special Revenue Funds	10,391,343	7,474,518	2,916,825
CAPITAL PROJECTS FUNDS	616,141	616,141	-0-
ENTERPRISE FUNDS			
Water	131,334	80,456	50,878
TOTAL PRIMARY GOVERNMENT	21,383,594	18,415,891	2,967,703
COMPONENT UNITS			
Metro Transit	10,577,338	7,580,382	2,996,956
	<u>\$ 31,960,932</u>	<u>\$ 25,996,273</u>	<u>\$ 5,964,659</u>

Principals

Dale J. Abraham, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA
Alan D. Panter, CPA
William I. Tucker IV, CPA



3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

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, 2016, 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 28, 2017. Our report includes a reference to other auditors who audited the financial statements of the City of Kalamazoo Downtown Development Authority, as described in our report on the City's financial statements. This report does not include the results of the other auditor's testing of internal control over financial reporting or compliance and other matters that are reported on separately by those 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 an instance of noncompliance or other matters that is required to be reported under *Government Auditing Standards* and is described in the accompanying schedule of findings and questioned costs as 2016-001.

City's Response to Finding

The City's response to the finding identified in our audit is described in the accompanying corrective action plan. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

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 28, 2017

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2016

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? _____ 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 2 CFR 200.516(a)? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant/ Entitlement Grants
14.239	Home Investment Partnerships Program

Dollar threshold used to distinguish between Type A and Type B programs: \$750,000

Auditee qualified as low-risk auditee? X Yes _____ No

Section II - Financial Statement Findings

2016-001 NONCOMPLIANCE WITH PUBLIC ACT 51 OF 1951

Condition: The City reports administrative expenses equal to 10% of the Michigan Transportation Funding on the Act 51 Street Report. The amount reported is not consistent with the amounts reflected in the City's general ledger and do not appear to be supported by other documentation.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2016

Section II - Financial Statement Findings - Continued

2016-001 NONCOMPLIANCE WITH PUBLIC ACT 51 OF 1951 - CONTINUED

Criteria: Section 13(6)(d) of the 1951 PA 51 states: "Not more than 10% per year of all of the funds returned to a city or village from any source for the purposes of this section may be expended for administrative expenses. As used in this subsection, "administrative expenses" means those expenses that are not assigned including, but not limited to, specific road construction or maintenance projects and are often referred to as general or supportive services. Administrative expenses shall not include net equipment expense, net capital outlay, debt service principal and interest, and payments to other state or local offices which are assigned, but not limited to, specific road construction projects or maintenance activities. A city or village which in a year expends more than 10% for administrative expenses shall be subject to section 14(5)."

Cause: Administrative expenses are not properly tracked and recorded in the City's general ledger.

Recommendation: We recommend the City properly track and record administrative expenses in order for them to be properly reflected on the Act 51 Street Report.

Section III - Federal Award Findings and Questioned Costs

None noted.

City of Kalamazoo

CORRECTIVE ACTION PLAN

Year Ended December 31, 2016

2016-001 NONCOMPLIANCE WITH PUBLIC ACT 51 OF 1951

City personnel responsible for resolution: Director of Managements Services/CFO, along with Accounting Division Manager and Public Services Support Services Division Manager.

Corrective action plan response: The City maintains an administrative services division of accounts within the Streets funds, but over the years additional operation expenses have migrated to this division as a matter of accounting convenience. The City will:

- 1) Review the use of this administrative accounts to ensure only true administrative costs are held within and either remove or move operational costs to their associated activities within the Streets funds.
- 2) Review budgetary planning of expenses to ensure the system limits administrative expenses to 10% of budgetary Act 51 revenues.

Anticipated completion date: January 22, 2018 with the adoption of the 2018 budget.

City of Kalamazoo

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year Ended December 31, 2016

There were no findings disclosed for the prior two (2) years.