

**City of Kalamazoo, Michigan
Metro Transit System**

FINANCIAL STATEMENTS

December 31, 2014

City of Kalamazoo, Michigan
Metro Transit System

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INDEPENDENT AUDITOR'S REPORT

Honorable Mayor and Members
of the City Commission and the
Kalamazoo Metro Transit System
Kalamazoo, Michigan

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Kalamazoo, Michigan, Metro Transit System (the System), a component unit 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 System'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 the City of Kalamazoo, Michigan, Metro Transit System, as of December 31, 2014, and the changes in financial position and cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and schedules of funding progress and employer contributions, as identified in the table of contents, 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 the City of Kalamazoo, Michigan, Metro Transit System's basic financial statements. The other supplementary information, as identified in the table of contents, is presented for purposes of additional analysis and is not a required part of the basic financial statements.

The other supplementary 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. Such information, except for the portions marked "unaudited" on which we express no opinion, 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 other supplementary information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The nonfinancial reports marked "unaudited" have not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 22, 2015, on our consideration of the City of Kalamazoo, Michigan, Metro Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, 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 the 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 the System's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 22, 2015

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

As management of the City of Kalamazoo, Michigan, Metro Transit System (the "System"), we offer readers of the System's basic financial statements this narrative for the years ended December 31, 2014 and 2013. The intent of the management's discussion and analysis is to provide highlights of the System's financial activities. Readers are encouraged to read this section in conjunction with the basic financial statements.

Using this Audit Report

This annual audit report consists of this management's discussion and analysis report, the independent auditor's report, and the basic financial statements of the System, which include notes that explain in more detail some of the information in the financial statements. This report also contains other supplementary information in addition to the basic financial statements, as required by the State of Michigan.

Basic Financial Statements and Presentation

The basic financial statements presented by the System are the Statement of Net Position, the Statement of Revenues, Expenses, and Changes in Net Position, and the Statement of Cash Flows. The System is structured as an enterprise fund, and the statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except for land and construction in progress, over their estimated useful lives.

The Statement of Net Position presents information on all of the System's assets and liabilities, with the difference between the two reported as net position. Note, the System does not report deferred outflows of resources or deferred inflows of resources at December 31, 2014 or 2013. If the System had recorded deferred outflows of resources or deferred inflows of resources, these would be reflected in the Statement of Net Position as well. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Net positions increase when revenues exceed expenses. Improved financial position is indicated by increases in assets and deferred outflows of resources without corresponding increases to liabilities and deferred inflows of resources.

The Statement of Revenues, Expenses, and Changes in Net Position presents information showing how the System's net position changed during the year. This statement summarizes operating revenue and expenses, along with nonoperating revenue and expenses. In addition, this statement lists capital grant revenue received from federal, state, and local governments.

The Statement of Cash Flows allows financial statement users to assess the System's adequacy or ability to generate sufficient cash flows to meet its obligations in a timely manner. The statement is classified into four categories: 1) cash flows from operating activities, 2) cash flows from non-capital financing activities, 3) cash flows from capital and related financing activities, and 4) cash flows from investing activities.

Refer to the footnotes of the basic financial statements for additional information on the measurement focus and basis of accounting.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

FINANCIAL ANALYSIS - COMPARATIVE

The Metro Transit System's total net position decreased less than 1% from a year ago - decreasing from \$28,695,621 to \$28,509,212. In a condensed format, the table below shows a comparison of the net position as of December 31, 2014, to the prior year December 31, 2013.

CONDENSED SUMMARY OF NET POSITION

	2014	2013
Current and Other Assets	\$ 6,217,875	\$ 8,544,742
Capital Assets, net	24,774,792	24,594,716
Total Assets	30,992,667	33,139,458
Current Liabilities	2,441,492	4,136,998
Noncurrent Liabilities	41,963	306,839
Total Liabilities	2,483,455	4,443,837
Net Position		
Investment in capital assets	24,774,792	24,594,716
Unrestricted	3,734,420	4,100,905
Total Net Position	\$ 28,509,212	\$ 28,695,621

Current Assets

The 27% decrease in current and other assets is due to a decrease in due from other governmental units.

Due from other governmental units

This amount represents amounts due from the State of Michigan or Federal government for capital and operating grants. Also included in this amount are amounts due from the City of Kalamazoo for various purposes. The 30% decrease is due to the collection of outstanding amounts due at December 31, 2013.

Capital Assets, Net of Depreciation

As of December 31, 2014, the System had capital assets with a historical cost of approximately \$42,145,551. This is an increase of \$1,182,443 from 2013. The system added three (3) hybrid buses and eleven (11) extended vans to the fleet, and disposed of seven (7) fully depreciated buses and vans. Other additions include software and equipment used to operate and maintain the System.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Current Liabilities

The 41% decrease in current liabilities is due primarily to a decrease in unearned revenue and due to other governmental units.

Unearned Revenue and Due to Other Governmental Units.

Unearned revenue decreased in the current year by 40% due to the System using grant monies to purchase buses and vans. The system added three (3) hybrid buses and eleven (11) extended vans to the fleet.

Noncurrent Liabilities

The 86% decrease in noncurrent liabilities is due primarily to a decrease in the noncurrent portion of other post-employment benefits.

Noncurrent portion of other post-employment benefits obligation

The noncurrent portion of the other post-employment benefits obligation represents the amounts expected to be paid beyond one year. The \$155,143 decrease is due to the System contributing to the City of Kalamazoo OPEB Trust in 2014 which resulted in an other post-employment benefits asset.

Net Position

At December 31, 2014, 86% of the System's net position reflects investment in capital assets consisting of buses, operating facilities, and equipment used to operate and maintain the System. The 1% decrease in net position is due to increased investments in capital assets and unfavorable operations due primarily to large purchases of capital items in 2014.

The Metro Transit System Activities

The Metro Transit System's operating revenues increased approximately \$39,563. This was primarily due to an increase in advertising revenue. Operating expenses increased approximately \$1,033,645, primarily due to an increase in insurance costs for prior year expense due to policy audit, paid in the current year. Federal grants and reimbursements decreased by \$1,554,654 due primarily to award of extra U.S. Department of Transportation Section 5307 operating grants in 2013. Capital grant funding decreased by approximately \$692,876 due to the completion of the Intelligent Transportation System implementation. As a result of these variances, net position decreased by \$186,409. In a condensed format, the table shows a comparison of the revenues and expenses for 2014 and 2013.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

CONDENSED SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

	2014	2013
Operating Revenue (Expenses)		
Operating Revenues	\$ 2,745,919	\$ 2,706,356
Operating Expenses	(17,007,945)	(15,974,300)
Operating Loss	(14,262,026)	(13,267,944)
Nonoperating Revenues		
Tax levy	870,592	858,942
Federal Grants and Reimbursements	2,461,481	4,016,135
State Grants and Reimbursements	4,567,073	4,631,736
Local Grants and Reimbursements	3,760,517	3,661,334
Investment Income	9,037	10,465
Gain/loss on Sale of Capital Assets	549	2,440
Total Nonoperating Revenues	11,669,249	13,181,052
Capital Grant Revenue	2,406,368	3,099,245
Change in Net Position	(186,409)	3,012,353
Net position - Beginning of Year	28,695,621	25,683,268
Net position - End of Year	\$ 28,509,212	\$ 28,695,621

Economic Factors

The Metro Transit System receives funding from passenger fares, property taxes, contract services, and state and federal assistance.

The System is partially funded through a property tax levy on the property owners of the City of Kalamazoo which is set to expire in 2015. The System levied .60000 mills in July 2013. The system has budgeted the same levy in 2014.

Metro Transit ridership increased in 2014 by 2.43%, with 3,210,352 passenger trips across all modes. Revenues are budgeted to be 12% higher in 2015 with the primary increase in Federal grant funding. Phase two, of the Intelligent Transportation System implementation began in 2014 with the addition of mobile phone tracking applications to connect people to the "Track My Bus" system allowing riders to locate where buses are on a map, along with estimated arrival times for bus stops of choice. Metro Transit had an operating loss for 2014, and will continue to monitor the budget on a monthly basis in 2015 to assist in controlling expenses.

The System receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The sources of these funds include a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. Because the State's program year ends on September 30, the percentage of eligible expenses covered by operating assistance is subject to change for the last quarter of the Metro Transit System's fiscal year ending December 31, 2014. For the period ending September 30, 2014, the System anticipates State operating assistance to fund 31.0150% of eligible urban expenses and 39.3000% of eligible nonurban expenses. For the quarter ending December 31, 2014, the System anticipates State operating assistance to fund 29.7299% of eligible urban expenses and 36.3426% of eligible nonurban expenses.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2014

Contacting the Metro Transit System

This audit report is intended to provide our citizens, taxpayers, and customers with the general overview of the Metro Transit System's finances and to show the System's accountability for the money that it receives. If you have any questions about this audit, please contact Thomas C. Skrobola, Director of Management Services/CFO, City of Kalamazoo, 241 W. South Street, Kalamazoo, MI 49007, (269) 337-8468.

BASIC FINANCIAL STATEMENTS

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF NET POSITION

December 31, 2014

ASSETS

Current assets

Cash and cash equivalents	\$ 3,502,161
Investments	1,000,000
Accounts receivable	31,555
Taxes receivable	82,317
Interest receivable	3,251
Due from other governmental units	827,934
Inventories	337,927
Prepays	<u>244,794</u>

Total current assets 6,029,939

Noncurrent assets

Net pension asset	134,352
Net other post-employment benefits asset	53,584
Capital assets not being depreciated	2,089,932
Capital assets, net of accumulated depreciation	<u>22,684,860</u>

Total noncurrent assets 24,962,728

TOTAL ASSETS 30,992,667

LIABILITIES

Current liabilities

Accounts payable	358,081
Due to other governmental units	282,462
Unearned revenue	1,632,048
Current portion of compensated absences	<u>168,901</u>

Total current liabilities 2,441,492

Noncurrent liabilities

Noncurrent portion of compensated absences	<u>41,963</u>
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TOTAL LIABILITIES 2,483,455

NET POSITION

Net investment in capital assets	24,774,792
Unrestricted	<u>3,734,420</u>

TOTAL NET POSITION \$ 28,509,212

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2014

OPERATING REVENUES	
Passenger fares	\$ 2,459,683
Special transit	1,579
Other operating revenue	<u>284,657</u>
TOTAL OPERATING REVENUES	2,745,919
OPERATING EXPENSES	
Operations	9,826,927
Maintenance	2,215,005
General administration	<u>4,966,013</u>
TOTAL OPERATING EXPENSES	<u>17,007,945</u>
OPERATING LOSS	(14,262,026)
NONOPERATING REVENUES	
Tax levy	870,592
Intergovernmental	
Federal sources	2,461,481
State sources	4,567,073
Local sources	3,760,517
Investment income	9,037
Gain on sale of capital assets	<u>549</u>
TOTAL NONOPERATING REVENUES	<u>11,669,249</u>
NET LOSS BEFORE CAPITAL GRANT REVENUE	(2,592,777)
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	1,925,094
State sources	<u>481,274</u>
TOTAL CAPITAL GRANT REVENUE	<u>2,406,368</u>
CHANGE IN NET POSITION	(186,409)
Net position, beginning of year	<u>28,695,621</u>
Net position, end of year	<u><u>\$ 28,509,212</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF CASH FLOWS

Year Ended December 31, 2014

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,461,262
Other operating cash receipts	288,045
Cash paid to suppliers	(8,046,929)
Cash paid for employee benefits	(3,384,569)
Cash paid to employees	<u>(3,804,472)</u>
NET CASH USED BY OPERATING ACTIVITIES	(12,486,663)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes	865,835
Intergovernmental sources	<u>8,889,479</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	9,755,314
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(2,381,334)
Capital contributions	3,220,747
Proceeds from sale of equipment	<u>21,406</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	860,819
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(1,000,000)
Maturity of investments	2,998,299
Interest received	<u>8,125</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>2,006,424</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	135,894
Cash and cash equivalents, beginning of year	<u>3,366,267</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,502,161</u></u>
Reconciliation of operating (loss) to net cash used by operating activities	
Operating (loss)	\$ (14,262,026)
Adjustments to reconcile operating (loss) to net cash used by operating activities	
Depreciation	2,180,401
(Increase) Decrease in:	
Accounts receivable	3,388
Prepays	124,381
Inventories	35,136
Net other post-employment benefits asset	(208,727)
Increase (decrease) in:	
Accounts payable	(396,714)
Compensated absences	<u>37,498</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (12,486,663)</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The operations of the City of Kalamazoo, Michigan, Metro Transit System (the "System" or "Authority") were acquired by the City of Kalamazoo on September 23, 1966 pursuant to the provisions set forth in Section 157A of the City Charter. The Authority manages the operations of the system pursuant to an agreement with the City of Kalamazoo. The System provides public transportation services to users in the City of Kalamazoo and portions of the surrounding area.

The accounting policies of the System conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. A summary of significant accounting policies is as follows:

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the System. The System is considered a "component unit" of the City of Kalamazoo, Michigan's governmental operation. As a result, industry standards require the City to include the financial activities of the System in the City's Annual Financial Report. The Annual Financial Report of the City of Kalamazoo, Michigan, is available for public inspection at the city hall for the City of Kalamazoo.

2. Basis of Presentation

The accounts of the System are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, deferred outflows of resources, liabilities, deferred inflows of resources, net position, revenues, and expenses. The System's resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets, deferred outflows of resources, liabilities, and deferred inflows of resources associated with the operation of these funds are included on the Statement of Net Position. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net position.

4. Basis of Accounting

Basis of accounting refers to when revenues and expenses are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurements made, regardless of the measurement focus applied.

Proprietary funds are accounted for using the accrual basis of accounting. Revenues are recognized when they are earned, and expenses are recognized when they are incurred, regardless of the timing of related cash flows.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

4. Basis of Accounting - Continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

If/when both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Cash, Cash Equivalents, and Investments

The System's cash and cash equivalents consists of checking accounts. The balance in the checking account is available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing accounts.

Investments consist of U.S. government securities. Investments are reported at fair value.

6. Receivables/Due From Other Governmental Units

Accounts receivable and due from other governmental units consist of amounts due for charges for services and various financial assistance programs, respectively.

7. Inventories

Inventories consist of repair parts, supplies, and fuel and are valued at cost, on a first-in, first-out basis, which approximates fair value.

8. Prepays

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items.

9. Capital Assets and Depreciation

Capital assets are those with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Property and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is recorded on a straight-line basis over the estimated useful lives of the assets as defined in the R&E (Revenue and Expense) Manual and/or as approved by OPT (Office of Passenger Transportation). Costs of maintenance and repairs are charged to expense when incurred. Capital assets are depreciated using the straight line method over the following useful lives:

Land improvements	5 - 50 years
Building and building improvements	50 years
Vehicles	4 - 10 years
Office equipment	6 - 10 years
Machinery and equipment	3 - 10 years
Intangibles	3 - 10 years

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

9. Capital Assets and Depreciation - Continued

Depreciation on all assets is provided on the straight-line basis over the estimated useful lives as defined in the Revenue and Expense (R&E) Manual published by the Michigan Department of Transportation (MDOT) and/or as approved by the Office of Passenger Transportation (OPT).

The eligible depreciation for the year ended September 30, 2014, of \$23,925 (\$2,139,338 total depreciation reported in Operating Assistance Report (OAR) code 51300 for both Urban and Nonurban less ineligible depreciation of \$2,115,413 reported in OAR code 55007 Ineligible Depreciation) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by OPT.

10. Compensated Absences

Vested or accumulated vacation leave is recorded as an expense and liability as the benefits accrue to employees. No liability is recorded for nonvesting accumulating rights to receive sick pay benefits. However, a liability is recognized for that portion of accumulated sick leave benefits that it is estimated will be taken as "termination leave" prior to retirement.

11. Unearned Revenue

Certain receipts from other entities reflect revenue applicable to future accounting periods and are recorded as unearned revenue.

12. Deferred Outflows/Inflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, *deferred outflows of resources*, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

In addition to liabilities, the statement of net position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, *deferred inflows of resources*, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Currently, the System does not have any items that meet the recognition criteria for classification as deferred outflows of resources or deferred inflows of resources.

13. Cost Allocations

The City of Kalamazoo Metro Transit System has four (4) cost allocation plans where the methodology has been approved by the OPT. Those cost allocations are for charter service, ridershare costs, urban and nonurban service, and Kalamazoo Transportation Center lease. These cost allocation plans were adhered to in the preparation of the financial statements.

The City of Kalamazoo Metro Transit System allocates expenses between various program activities for grant reporting purposes. The allocations are prepared based on a cost allocation plan and methodology that has been approved by the grantor agency (i.e., service miles).

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE A: DESCRIPTION OF ORGANIZATION AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
- CONTINUED

14. Comparative Data

Comparative data for the prior year has not been presented in the accompanying financial statements since the inclusion of comparative data would make the statements unduly complex and difficult to read.

15. Explanation of Ineligible Expenses per the OPT R&E Manual

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Any capital money used to pay for operating expenses is subtracted out as ineligible expense and no expenses previously paid with capital money are included in expenses to be reimbursed. All costs associated with earning nontransportation revenue have been subtracted out as ineligible expenses. All ineligible expenses, as required by OPT's R&E manual, have been reported.

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City of Kalamazoo Metro Transit System is authorized to invest any of its funds in one (1) or more of the following:

1. Bonds, securities, and other obligations of the United States or any agency or instrumentality of the United States.
2. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which it maintains a principal office or branch office located in this State under the laws of the State or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.
3. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
4. The United States government or federal agency obligations repurchase agreements.
5. Bankers acceptances of United States banks.
6. Mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan.

Deposits

Deposits are maintained at one (1) financial institution and are carried at cost, as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking account	<u>\$ 3,501,461</u>	<u>\$ 3,431,279</u>

The Statement of Net Position caption "cash and cash equivalents" includes \$700 of imprest cash. The cash on deposit is held in the name of the City of Kalamazoo. As a result, this account is insured to a maximum amount of \$250,000; however the insured and uninsured amounts related to this account cannot be determined.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Investments

As of December 31, 2014, the carrying amounts and market values for the investments were as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity</u>	<u>S&P Rating</u>	<u>%</u>
Insured or registered for which the securities are held by the System's agent in the System's name				
Federal National Mortgage Association	<u>\$ 1,000,000</u>	974 days	AA+	<u>100.00%</u>

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System's banking and investment policy does not specifically address this risk, although the System believes that due to the dollar amounts of cash deposits and the limits of Federal Deposit Insurance Corporation insurance, it is impractical to insure all bank deposits. As a result, the System evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated level risk level are used as depositories.

Custodial Credit Risk - Investments

Custodial credit risk, which is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery versus payment. As of December 31, 2014, none of the System's investments were exposed to risk since the securities are held in the System's name by the counterparty.

Interest Rate Risk

The System will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by obtaining a rate of return throughout budgetary and economic cycles, commensurate with the investment risk constraints and the cash flow characteristics of the portfolio. The System's policy provides that the maximum weighted average maturity will be limited to 18 months.

Credit Risk

At December 31, 2014, all of the System's investments in securities of U.S. agencies were rated AA+. All of the System's investments comply with its policy regarding the types of investments it may hold.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Concentration of Credit Risk

The System will minimize concentration of credit risk, which is the risk of loss attributed to the magnitude of the System's investment in a single issuer, by security type and institution. Among other provisions, the System's investment policy permits the entire portfolio to be invested in obligations of U.S. agencies with the limitation that no more than 35% may be placed with a single institution. However, the investments of the System are pooled with those of the City of Kalamazoo's and the concentration is determined for the entire pool, not the System individually.

Cash, cash equivalents, and investments reported on the Statement of Net Position consist of the following:

Cash and cash equivalents	\$ 3,502,161
Investments	<u>1,000,000</u>
Total	<u><u>\$ 4,502,161</u></u>

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at December 31, 2014, by grant type and grant award year are as follows:

Federal Section 5309 Capital - FY 2006	\$ 8,674
Federal Section 5309 Capital - FY 2009	1,140
Federal Section 5307 Capital - FY 2012	56,703
Federal Section 5311 Operating - FY 2014	6,904
State Operating Assistance - FY 2015	49,104
State Operating Assistance - FY 2013	78,600
State Operating Assistance - FY 2012	455,682
New Freedom - FY 2014	65,645
Specialized Services - FY 2014	7,500
City of Kalamazoo	<u>97,982</u>
Total	<u><u>\$ 827,934</u></u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2014, was as follows:

	Balance Jan. 1, 2014	Additions	Deletions	Balance Dec. 31, 2014
Capital assets not being depreciated				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	12,734	64,567	-	77,301
Subtotal	2,025,365	64,567	-0-	2,089,932
Capital assets being depreciated				
Building and improvements	18,164,851	-	(87,180)	18,077,671
Land improvements	399,835	-	(74,500)	325,335
Machinery and equipment	2,457,279	90,583	(366,739)	2,181,123
Vehicles	15,016,429	2,200,089	(670,472)	16,546,046
Intangible assets	2,899,349	26,095	-	2,925,444
Subtotal	38,937,743	2,316,767	(1,198,891)	40,055,619
Less accumulated depreciation for:				
Building and improvements	(6,190,328)	(475,278)	83,448	(6,582,158)
Land improvements	(339,767)	(6,303)	74,500	(271,570)
Machinery and equipment	(2,027,689)	(137,156)	364,502	(1,800,343)
Vehicles	(7,644,757)	(1,259,652)	655,584	(8,248,825)
Intangible assets	(165,851)	(302,012)	-	(467,863)
Subtotal	(16,368,392)	(2,180,401)	1,178,034	(17,370,759)
Net capital assets being depreciated	22,569,351	136,366	(20,857)	22,684,860
Capital assets, net	<u>\$ 24,594,716</u>	<u>\$ 200,933</u>	<u>\$ (20,857)</u>	<u>\$ 24,774,792</u>

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be determined by the United States Department of Transportation (USDOT) and the Michigan Department of Transportation (MDOT). During the year the City of Kalamazoo Metro Transit System disposed of assets that were Federally and State funded with a historical cost of \$1,198,891 and accumulated depreciation of \$1,178,034. Depreciation expense in the amount of \$2,180,401 was reported for year ended December 31, 2014.

NOTE E: COMPENSATED ABSENCES

Compensated absences activity for the year ended December 31, 2014, was as follows:

	Balance Jan. 1, 2014	Additions	Deletions	Balance Dec. 31, 2014	Amounts Due Within One Year
Compensated absences	<u>\$ 173,366</u>	<u>\$ 383,859</u>	<u>\$ (346,361)</u>	<u>\$ 210,864</u>	<u>\$ 168,901</u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE E: COMPENSATED ABSENCES - CONTINUED

In accordance with the City of Kalamazoo Metro Transit System's personnel policies and/or contracts negotiated with the various employee groups of the System, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$210,864 for vacation and sick at December 31, 2014. The amounts of \$168,901 and \$41,963 have been reported as current and noncurrent liabilities, respectively.

NOTE F: DEFINED BENEFIT PENSION PLAN

The System contributes to the City of Kalamazoo Employees' Retirement System, which is the administrator of a single-employer public employees' retirement system that covers all employees of the City. The City of Kalamazoo Employees' Retirement System report has been issued under a separate cover. Actuarial valuations of the retirement plan do not currently present separate data for the System. However, this information will be available in future years when the City adopts Governmental Accounting Standards Board Statement No. 68 (GASB Statement 68) during the 2015 fiscal year.

NOTE G: RISK MANAGEMENT

The System is a member of the Michigan Transit Liability Trust Fund ("Pool") established pursuant to an Intergovernmental Agreement entered into by the member Transit Agencies and Authorities.

This Pool was established for the purpose of making a self-insurance pooling program available for Michigan Transit Agencies and Authorities, which includes, but is not limited to, bodily injury liability, property damage liability, and personal injury liability related to vehicle operation of the System.

The System pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the System receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Authority and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the System upon notification. Settled claims have not exceeded the amount of insurance in any of the past three (3) fiscal years.

The System is also exposed to various risks of loss related to property loss, torts, error and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The System participates in the City of Kalamazoo's risk management program for all of these exposures. The City's risk management program is primarily a self-insured program with reinsurance for amounts in excess of aggregate loss funds. The City estimates the liability for unpaid claims and allocates the cost to all appropriate entities and funds. There is no further exposure to the System that would require a liability to be recorded in the financial statements.

NOTE H: CONTINGENT LIABILITIES

Under the terms of various Federal and State grants, periodic compliance audits are required and certain costs may be questioned, allowed, or disallowed, which could result in funds being returned and/or received from grantor agencies. The amount, if any, of expenditures which may be disallowed by grantors cannot be determined at this time, although the System expects such amounts, if any, to be immaterial.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE I: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

The System participates in the City of Kalamazoo Postretirement Welfare Benefits Plan (the "Plan"), a single-employer defined other post-employment benefit plan administered by the City of Kalamazoo. The City provides medical and dental insurance benefits to eligible retirees and their spouses. The City purchases Medicare supplemental insurance for retirees eligible for Medicare. In addition to the healthcare benefits described above, the Plan provides a death benefit of \$1,000 to all eligible retirees. The Plan issues a publicly available financial report that includes financial statements and required supplementary information, which may be obtained by writing to the City of Kalamazoo Other Post-Employment Benefits Trust, 241 W. South Street, MI 49007.

The following are the Governmental Accounting Standards Board Statement No. 45 (GASB Statement 45) required disclosures that have been implemented prospectively by the System.

The actuarial report for the City of Kalamazoo does not provide membership in the plan by division. The retiree and beneficiary information below is the approximate number at December 31, 2014 (determined by the City):

Retirees and beneficiaries receiving benefits	68
Active plan members	<u>50</u>
	<u><u>118</u></u>

Funded Status and Funding Progress

The Plan's funding policy provides for periodic contributions by the System at actuarially determined rates expressed as a percentage of annual covered payroll. The System is required to contribute at a rate of 41.7% of annual covered payroll. The annual required contribution (ARC) represents a level of funding that, if paid on an ongoing basis, is projected to cover the normal cost each year and to amortize any unfunded actuarial liabilities (or funding excess) over a period not to exceed thirty (30) years.

Actuarial Methods and Assumptions

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Amounts determined regarding the funded status of the plan and the annual required contributions of the employer are subject to continual revision as actual results are compared to past expectations and new estimates are made about the future. The schedule of funding progress, presented below, presents multiyear trend information that shows whether the actuarial value of plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities or benefits.

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan as understood by the employer and plan members) and include the types of benefits provided at the time of each valuation and the historical pattern of sharing benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE I: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

For year ended December 31, 2013, the System's annual cost for other post-employment benefits (OPEB) was \$616,600. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2013, using the individual entry age method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 4.0% investment rate of return (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0.0% to 7.0% per year depending on age, seniority and merit, (d) the healthcare cost trend inflation rate of 4.0% to 9.0%, and (e) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years on a closed basis.

The System's computed contribution and actual funding is summarized as follows:

Annual required contribution (ARC)	\$ 619,366
Interest on net OPEB obligation	6,206
Adjustment to annual required contribution	<u>(8,972)</u>
Annual OPEB cost	616,600
Contributions made	<u>825,327</u>
(Decrease) in net OPEB obligation	(208,727)
Net OPEB obligation - beginning of year	<u>155,143</u>
Net OPEB obligation (asset) - end of year	<u><u>\$ (53,584)</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the years ended December 31, were as follows:

	2012	2013	2014
Annual OPEB cost	\$ 804,681	\$ 789,227	\$ 616,600
Percentage contributed	50.0%	552.0%	133.9%
Net OPEB obligation	3,722,509	155,143	(53,584)

The schedule of funding progress of the plan based on the most recent valuations is as follows:

	2009	2011	2013
Actuarial value of assets	\$ -	\$ -	\$ 3,887,796
Actuarial accrued liability (AAL)	15,369,825	11,132,861	11,375,862
Unfunded AAL (UAAL)	15,369,825	11,132,861	7,488,066
Funded ratio	0%	0%	34.2%
Annual covered payroll	2,573,150	2,582,888	2,190,553
Ratio of UAAL to covered payroll	597.3%	431.0%	341.8%

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE J: PROPERTY TAX REVENUES

The System's property tax is levied in July on the State Equalized Valuation of property located in the City of Kalamazoo as of the preceding July. Real and personal property in the City for the current levy was assessed and equalized at approximately \$1.465 billion representing 50% of estimated current market value. For the year ended December 31, 2014, the System levied 0.6000 mills.

NOTE K: COMPLIANCE REQUIREMENTS

The methodology used for compiling mileage on OAR Schedules (Urban and Nonurban) is an adequate and reliable methodology for recording vehicle mileage.

Ineligible expenses are classified appropriately according to the definition in the Michigan Department of Transportation Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal OMB Circular A-87. Any capital money used to pay for operating expenses is subtracted out as ineligible expense and no expenses previously paid with capital money are included in expenses to be reimbursed. All costs associated with earning nontransportation revenue have been subtracted out as ineligible expenses. Eligible pension benefits and other post-employment benefits include only amounts actually expensed on the books and paid with out-of-pocket money (e.g., not actuarial gains). All ineligible expenses, as required by OPT's R&E manual, have been reported.

NOTE L: UPCOMING ACCOUNTING PRONOUNCEMENTS

In June 2012, the GASB issued Statement No. 68, *Accounting and Financial Reporting for Pensions*. The statement requires governments providing defined benefit pensions to recognize their unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparably measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). The System is currently evaluating the impact this standard will have on the financial statements when adopted. The provisions of this statement are effective for financial statements for the System's 2015 fiscal year.

In November 2013, the GASB issued Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date - An Amendment of GASB Statement No. 68*. The statement addresses an issue regarding the application of the transition provisions of GASB Statement No. 68 and amends paragraph 137 of GASB Statement No. 68 and requires that, at transition, a government recognize a beginning deferred outflow of resources for its pension contributions, if any, made subsequent to the measurement date of the beginning net pension liability. The provisions of this statement are required to be applied simultaneously with the provisions of GASB Statement No. 68. The System is currently evaluating the impact this standard will have on the financial statements when adopted during the 2015 fiscal year.

In March 2015, the GASB issued Statement No. 72, *Fair Value Measurement and Application*. This statement addresses accounting and financial reporting issues related to fair value measurements. The definition of fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This statement provides guidance for determining a fair value measurement for financial reporting purposes. This statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements. The System is currently evaluating the impact this standard will have on the financial statements when adopted for the 2016 fiscal year.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2014

NOTE L: UPCOMING ACCOUNTING PRONOUNCEMENTS - CONTINUED

In June 2015, the GASB issued Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions*. The statement requires governments providing other postemployment benefits (OPEB) to recognize their unfunded OPEB obligation as a liability for the first time, and to more comprehensibly and comparably measure the annual costs of OPEB benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI). The System is currently evaluating the impact this standard will have on the financial statements when adopted for the 2018 fiscal year.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULES OF FUNDING PROGRESS AND EMPLOYER CONTRIBUTIONS

Year Ended December 31, 2014

OTHER POST-EMPLOYMENT BENEFIT PLAN

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
12/31/2013	\$ 3,887,796	\$ 11,375,862	\$ 7,488,066	34.2%	\$ 2,190,553	341.8%
12/31/2011	-	11,132,861	11,132,861	0.0%	2,582,888	431.0%
12/31/2009	-	15,369,825	15,369,825	0.0%	2,573,150	597.3%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual OPEB Cost	Percentage Contribution	Net OPEB (Asset) Obligation
2014	\$ 616,600	134%	\$ (53,584)
2013	789,227	552%	155,143
2012	804,681	50%	3,722,509

OTHER SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended December 31, 2014

	<u>1/1/2014 to 9/30/2014</u>	<u>10/1/2014 12/31/2014</u>	<u>Total</u>
Passenger fares	\$ 1,835,977	\$ 623,706	\$ 2,459,683
Special transit	-	1,579	1,579
Other operating revenue	173,088	111,569	284,657
Tax levy	871,733	(1,141)	870,592
Local operating assistance	2,952,988	807,529	3,760,517
Investment income	4,362	4,675	9,037
Gain (loss) on sale of capital assets	<u>2,891</u>	<u>(2,342)</u>	<u>549</u>
 TOTAL LOCAL REVENUES	<u>\$ 5,841,039</u>	<u>\$ 1,545,575</u>	<u>\$ 7,386,614</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2014

	<u>10/1/2013 to 12/31/2013</u>	<u>1/1/2014 to 9/30/2014</u>	<u>Total</u>
Passenger fares	\$ 616,493	\$ 1,835,977	\$ 2,452,470
Special transit	1,744	-	1,744
Other operating revenue	103,391	173,088	276,479
Tax levy	(5,743)	871,733	865,990
Local operating assistance	787,833	2,952,988	3,740,821
Investment income	3,398	4,362	7,760
Gain (loss) on sale of capital assets	<u>2,440</u>	<u>2,891</u>	<u>5,331</u>
 TOTAL LOCAL REVENUES	<u>\$ 1,509,556</u>	<u>\$ 5,841,039</u>	<u>\$ 7,350,595</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended December 31, 2014

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Restated Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Direct programs:								
Federal Transit - Capital Investment Grants								
Capital Grant - Section 5309 (80/20)	20.500	MI-04-0027/2007-0239/Z11	\$ 4,370,000	\$ 1,531,623	\$ 1,225,298	\$ 306,325	\$ 2,838,377	\$ -0-
Capital Grant - Section 5309 (80/20)		MI-04-0047/2007-0239/Z14	2,937,500	273,644	218,915	54,729	869,553	1,794,303
Capital Grant - Section 5309 (80/20)		MI-03-0240/2007-0239/Z25	91,019	9,799	7,839	1,960	81,019	201
Federal Transit - Formula Grants								
Capital Grant - Section 5307(80/20)	20.507	MI-95-X054/2007-0239/Z20	130,968	109,233	87,386	21,847	-	21,735
Capital Grant - Section 5307(80/20)		MI-95-X073/2007-0239/Z23	167,266	36,411	29,129	7,282	108,726	22,129
Capital Grant - Section 5307(80/20)		MI-95-X080/2012-0112/P4	238,519	36,411	29,129	7,282	-	202,108
Capital Grant - Section 5307(80/20)		MI-90-X677/2012-0112/P8	830,000	190,781	152,625	38,156	336,117	303,102
Capital Grant - Section 5307(80/20)		MI-95-X102/2012-0112/P9	235,206	218,466	174,773	43,693	-	16,740
Operating Grant - Section 5307		MI-90-X677-01	2,383,966	2,383,966	2,383,966	-	-	-0-
Passed through Michigan Department of Transportation								
Formula Grants for Rural Areas								
Operating Assistance - Section 5311 (FY 15)	20.509	MI-18-X055-04/2012-0112/P15	15,448	6,904	6,904	-	-	8,544
Operating Assistance - Section 5311 (FY 14)		MI-18-X055-02/2012-0112/P12	24,834	9,700	9,700	-	5,978	9,156
New Freedom Program - Section 5317								
Mobility Manager (80/20)	20.521	MI-57-X010-04/2012-0112/P10	100,000	81,226	64,981	16,245	10,428	8,346
Capital (80/20)		MI-57-X010-04/2012-0112/P10	20,000	-0-	-	-	-	20,000

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Year Ended December 31, 2014

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Restated Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY15)		N/A	\$ 4,552,858	\$ 1,179,015	\$ -	\$ 1,179,015	\$ -	\$ 3,373,843
Operating Assistance (FY14)		N/A	4,860,048	3,310,133	-	3,310,133	1,183,356	366,559
Ridesharing Fellowship	N/A							
2013-2014		N/A	41,800	1,750	-	1,750	-	40,050
2012-2013		N/A	75,000	-0-	-	-	-	75,000
Specialized Services	N/A							
2013-2014		N/A	30,000	7,500	-	7,500	22,500	-0-
2014-2015		N/A	30,000	22,500	-	22,500	-	7,500
TOTALS			<u>\$ 21,134,432</u>	<u>\$ 9,409,062</u>	<u>\$ 4,390,645</u>	<u>\$ 5,018,417</u>	<u>\$ 5,456,054</u>	<u>\$ 6,269,316</u>

(a) The following reconciles the total Federal and State revenues reported in the December 31, 2014, financial statements to the expenditures reported in the Schedule of Expenditures of Federal and State Awards:

	Revenue Per Financial Statements	Adjustments for Prior Year Reconciliations	Federal and State Award Expenditures
Federal	\$ 4,386,575	\$ 4,070	\$ 4,390,645
State	5,048,347	(29,930)	5,018,417
	<u>\$ 9,434,922</u>	<u>\$ (25,860)</u>	<u>\$ 9,409,062</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended December 31, 2014

	1/1/2014 to 9/30/2014	10/1/2014 to 12/31/2014	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 3,310,133	\$ 1,179,015	\$ 4,489,148
U.S. Department of Transportation - Section 5317	2,099	14,146	16,245
Fellowship	824	926	1,750
Specialized Services	22,500	7,500	30,000
Total State Operating Grants	3,335,556	1,201,587	4,537,143
Federal Operating Grants			
U.S. Department of Transportation - Section 5307	1,888,966	495,000	2,383,966
U.S. Department of Transportation - Section 5311	9,700	6,904	16,604
U.S. Department of Transportation - Section 5317	8,396	56,585	64,981
Total Federal Operating Grants	1,907,062	558,489	2,465,551
TOTAL OPERATING GRANTS - STATE AND FEDERAL	\$ 5,242,618	\$ 1,760,076	\$ 7,002,694

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended September 30, 2014

	10/1/2013 to 12/31/2013	1/1/2014 to 9/30/2014	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 1,183,356	\$ 3,310,133	\$ 4,493,489
U.S. Department of Transportation - Section 5317	-	2,099	2,099
Fellowship	-	824	824
Specialized Services	7,500	22,500	30,000
Total State Operating Grants	1,190,856	3,335,556	4,526,412
Federal Operating Grants			
U.S. Department of Transportation - Section 5307	495,000	1,888,966	2,383,966
U.S. Department of Transportation - Section 5311	5,978	9,700	15,678
U.S. Department of Transportation - Section 5317	-	8,396	8,396
Total Federal Operating Grants	500,978	1,907,062	2,408,040
TOTAL OPERATING GRANTS - STATE AND FEDERAL	\$ 1,691,834	\$ 5,242,618	\$ 6,934,452

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended December 31, 2014

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Total</u>
Labor	\$ 3,802,250	\$ 2,222	\$ -	\$ 3,804,472
Fringe benefits	3,211,634	1,706	-	3,213,340
Services	1,490,609	6,405	-	1,497,014
Materials and supplies	2,029,718	935	-	2,030,653
Utilities	351,392	2,194	-	353,586
Insurance	725,418	444	-	725,862
Taxes and fees	981	-	-	981
Purchased services	2,863,469	82,389	30,000	2,975,858
Miscellaneous	223,615	2,163	-	225,778
Depreciation	2,164,973	15,428	-	2,180,401
	<u>\$ 16,864,059</u>	<u>\$ 113,886</u>	<u>\$ 30,000</u>	<u>\$ 17,007,945</u>
Total expenses	<u>\$ 16,864,059</u>	<u>\$ 113,886</u>	<u>\$ 30,000</u>	<u>\$ 17,007,945</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING EXPENSES SPLIT BETWEEN A DECEMBER 31 AND SEPTEMBER 30 YEAR END

Year Ended December 31, 2014

	Urban			Nonurban		
	1/1/2014 to 9/30/2014	10/1/2014 to 12/31/2014	Total	1/1/2014 to 9/30/2014	10/1/2014 to 12/31/2014	Total
Labor	\$ 2,797,980	\$ 1,004,270	\$ 3,802,250	\$ 1,350	\$ 872	\$ 2,222
Fringe benefits	2,222,617	989,017	3,211,634	934	772	1,706
Services	1,099,105	391,504	1,490,609	3,148	3,257	6,405
Materials and supplies	1,560,356	469,362	2,029,718	625	310	935
Utilities	267,405	83,987	351,392	1,398	796	2,194
Insurance	561,897	163,521	725,418	280	164	444
Taxes and fees	751	230	981	-	-	-0-
Purchased services	2,166,583	696,886	2,863,469	52,367	30,022	82,389
Miscellaneous	69,514	154,101	223,615	688	1,475	2,163
Depreciation	1,625,557	539,416	2,164,973	9,746	5,682	15,428
Total expenses	\$ 12,371,765	\$ 4,492,294	\$ 16,864,059	\$ 70,536	\$ 43,350	\$ 113,886

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING EXPENSES BY PROGRAM

Year Ended September 30, 2014

	Urban			Nonurban		
	10/1/2013 to 12/31/2013	1/1/2014 to 9/30/2014	Total	10/1/2013 to 12/31/2013	1/1/2014 to 9/30/2014	Total
Labor	\$ 968,698	\$ 2,797,980	\$ 3,766,678	\$ 737	\$ 1,350	\$ 2,087
Fringe benefits	1,116,456	2,222,617	3,339,073	598	934	1,532
Services	355,191	1,099,105	1,454,296	3,935	3,148	7,083
Materials and supplies	576,053	1,560,356	2,136,409	523	625	1,148
Utilities	73,596	267,405	341,001	865	1,398	2,263
Insurance	63,806	561,897	625,703	231	280	511
Taxes and fees	463	751	1,214	-	-	-0-
Purchased services	725,426	2,166,583	2,892,009	31,250	52,367	83,617
Miscellaneous	10,750	69,514	80,264	126	688	814
Depreciation	496,619	1,625,557	2,122,176	7,416	9,746	17,162
Total expenses	\$ 4,387,058	\$ 12,371,765	\$ 16,758,823	\$ 45,681	\$ 70,536	\$ 116,217

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2014

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 2,394,592
406	Auxiliary trans revenues	
40615	Advertising	54,770
40620	Intercity ticket sales	90,184
407	Nontrans revenues	
40720	Rental of buildings or other property	109,863
40725	Parking lot revenue	980
40760	Gain (loss) from sale of capital assets	5,205
40799	Other nontransportation revenue	14,158
408	Local revenue	
40800	Taxes levied directly for/by transit agency	845,552
409	Local revenue	
40910	Local operating assistance	3,652,538
40999	Other local contracts and reimbursements	1,703
411	State formula and contracts	
41101	State operating assistance	4,454,980
41114	Other capital contract reimbursement for operating expense	9,994
413	Federal contracts	
41302	Federal Section 5307 operating	2,383,966
41399	Other federal transit contracts and reimbursements	10,247
414	Other revenue	
41400	Interest income	<u>7,577</u>
	TOTAL URBAN SERVICE REVENUE	<u><u>\$ 14,036,309</u></u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4N
URBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2014

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	2,352,241	393,175	-	2,745,416

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4R
NONURBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2014

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 57,878
406	Auxiliary trans revenues	
40615	Advertising	1,324
40620	Intercity ticket sales	2,180
407	Nontrans revenues	
40720	Rental of buildings or other property	2,655
40725	Parking lot revenue	23
40760	Gain from sale of capital assets	126
40799	Other nontransportation revenue	342
408	Local revenue	
40800	Taxes levied directly for/by transit agency	20,438
409	Local revenue	
40910	Local operating assistance	88,283
40999	Other local contracts and reimbursements	41
411	State formula and contracts	
41101	State operating assistance	38,509
41114	Other capital contract reimbursement for operating expenses	240
413	Federal contracts	
41301	Federal Section 5311	15,678
41399	Other federal transit contracts and reimbursements	248
414	Other revenue	
41400	Interest income	183
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 228,148</u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2014

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50102	Other salaries and wages	\$ 2,087	\$ -	\$ -	\$ 2,087
502	Fringe benefits				
50200	Other fringe benefits	1,532	-	-	1,532
503	Services				
50302	Advertising fees	-	-	59	59
50305	Audit cost	-	-	41	41
50399	Other services	686	-	6,297	6,983
504	Materials and supplies				
50401	Fuel and lubricants	368	-	4	372
50499	Other materials and supplies	311	-	465	776
505	Utilities				
50500	Utilities	557	-	1,706	2,263
506	Insurance				
50699	Other insurance	-	-	511	511
508	Purchased trans service				
50800	Purchased trans service	83,617	-	-	83,617
509	Miscellaneous expenses				
50902	Travel, meetings, and training	-	-	58	58
50903	Association dues and subscriptions	-	-	221	251
50999	Other miscellaneous expenses	-	-	505	505
513	Depreciation				
51300	Depreciation	-	-	17,162	17,162
550	Ineligible expenses				
55004	Other ineligible state contracts	-	-	12	12
55007	Ineligible depreciation	-	-	16,962	16,962
55009	Ineligible percent of association dues	-	-	27	27
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	-	-	222	222
56004	Ineligible expenses associated w/rentals	-	-	1,007	1,007
Total expenses					116,217
Total ineligible expenses					<u>18,230</u>
Total eligible expenses					<u><u>\$ 97,987</u></u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4N
NONURBAN REGULAR SERVICE NONFINANCIAL REPORT (UNAUDITED)

Year Ended September 30, 2014

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	25,383	1,411	-	26,794

⁽¹⁾ The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

City of Kalamazoo, Michigan
Metro Transit System

OPERATING ASSISTANCE CALCULATION

Year Ended September 30, 2014

	Urban	Nonurban
Total expenses	\$ 16,758,823	\$ 116,217
Less ineligible expenses		
Ineligible depreciation	2,098,451	16,962
Ineligible percent of association dues	4,747	27
Ineligible expenses associated w/advertising	55,872	222
Ineligible expenses associated w/rentals	114,032	1,007
Other ineligible operating expenses paid by capital contract	10,236	-
Other ineligible Federal/State/Local	81,226	-
Ineligible fringe benefits	28,875	-
	2,394,870	18,230
Total ineligible expenses per R&E manual		
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 14,363,953	\$ 97,987
Eligible expenses for State reimbursement	\$ 14,363,953	\$ 97,987
x Reimbursement percentage	31.0150%	39.3000%
State operating assistance	\$ 4,454,980	\$ 38,509
Eligible expenses for Federal reimbursement		\$ 97,987
x Reimbursement percentage	N/A	16.00%
Federal operating assistance	\$ 2,383,966	\$ 15,678

Principals

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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 and the
Kalamazoo Metro Transit System
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 City of Kalamazoo, Michigan, Metro Transit System (the System), a component unit 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 System's basic financial statements, and have issued our report thereon dated June 22, 2015.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the System'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 the System's internal control. Accordingly, we do not express an opinion on the effectiveness of the System'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 System'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 entity'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