

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

FINANCIAL STATEMENTS

December 31, 2015

City of Kalamazoo, Michigan
Metro Transit System

TABLE OF CONTENTS

December 31, 2015

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-iii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iv-viii
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3-4
Notes to Financial Statements	5-20
REQUIRED SUPPLEMENTARY INFORMATION	
Defined Benefit Pension Plan	
Schedule of Changes in Employer's Net Pension Asset and Related Ratios	21
Schedule of Employer Contributions	22
Schedule of Investment Returns	23
Other Post-Employment Benefits Plan	
Schedules of Funding Progress and Employer Contributions	24
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Local Revenues	25
Schedule of Local Revenues (Year Ended September 30, 2015)	26
Schedule of Expenditures of Federal and State Awards	27-28
Schedule of Federal and State Awards - Operating Revenue Only	29
Schedule of Federal and State Awards - Operating Revenue Only (Year Ended September 30, 2015)	30
Schedule of Operating and Contract Expenses (Based on a December 31 Year End)	31
Schedule of Operating Expenses Split Between a December 31 and September 30 Year End	32
Schedule of Operating Expenses by Program	33
Urban Regular Service Revenue Report (OAR Schedule 4R)	34
Urban Regular Service Expense Report (OAR Schedule 4E)	35
Urban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	36
Nonurban Regular Service Revenue Report (OAR Schedule 4R)	37
Nonurban Regular Service Expense Report (OAR Schedule 4E)	38
Nonurban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	39
Operating Assistance Calculation	40
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>	41-42

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

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, 2015, 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, 2015, 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.

Change in Accounting Principles

As discussed in Note M to the financial statements, the System implemented GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, during the year. As a result, the financial statements now recognize the System's overfunded defined pension benefit obligation as an asset for the first time and more comprehensively and comparably measures the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplemental information (RSI). Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and historical pension and other post-employment benefits supplementary information, 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 28, 2016, 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 28, 2016

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015 and 2014. 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, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. 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, 2015

FINANCIAL ANALYSIS - COMPARATIVE

The Metro Transit System's total net position decreased 1.5% from a year ago - decreasing from \$37,792,728 (restated for GASB 68) to \$37,246,514. In a condensed format, the table below shows a comparison of the net position as of December 31, 2015, to the prior year December 31, 2014.

CONDENSED SUMMARY OF NET POSITION

	2015	2014
Current and Other Assets	\$ 15,462,550	\$ 15,501,391
Capital Assets, net	24,740,765	24,774,792
Total Assets	40,203,315	40,276,183
Deferred Outflows of Resources	2,777,421	-
Current Liabilities	1,405,496	2,441,492
Noncurrent Liabilities	4,268,451	41,963
Total Liabilities	5,673,947	2,483,455
Deferred Inflows of Resources	60,275	-
Net Position		
Investment in capital assets	24,740,765	24,774,792
Unrestricted	12,505,749	13,017,936
Total Net Position	\$ 37,246,514	\$ 37,792,728

Current Assets

Current and other assets includes the System's net pension asset and net other post-employment benefits asset. Due from other governmental units 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 during the year the System issued OPEB bonds for the purpose of funding its portion of the City of Kalamazoo's OPEB Trust fund, increasing the Net OPEB benefit recorded in the prior year to \$3,556,406.

Capital Assets, Net of Depreciation

As of December 31, 2015, the System had capital assets with a historical cost of approximately \$43,417,183. This is an increase of \$1,271,632 from 2015. The system added three (3) hybrid buses and a new camera system was installed in all vehicles, along with software and equipment used to operate and maintain the System.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

Deferred Outflows of Resources

The system recorded \$2,777,421 of deferred outflows of resources related to pensions in 2015 with the implementation of GASB 68. The deferred outflows of resources is due to the difference between projected and actual investment earnings on pension plan investments and changes in assumptions.

Current Liabilities

The 42% decrease in current liabilities is due primarily to a decrease in unearned revenue.

Unearned Revenue and Due to Other Governmental Units.

Unearned revenue decreased in the current year by 75% due to the System using grant funds to purchase buses and camera equipment, and completing final payback to the State of Michigan for completing 2012 and 2013 Act 51 funding..

Noncurrent Liabilities

The significant increase in noncurrent liabilities is due primarily to the System issuing OPEB bonds for the purpose of funding its portion of the City's OPEB Trust fund.

Noncurrent portion of other post-employment benefits obligation

The noncurrent portion of the other post-employment benefits bonds represents the amounts expected to be paid beyond one year.

Deferred Inflows of Resources

The system recorded \$60,275 of deferred inflows of resources related to pensions in 2015 with the implementation of GASB 68. The deferred inflows of resources is due to the difference between expected and actual experience.

Net Position

At December 31, 2015, 66% 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 1.5% decrease in net position is due to unfavorable operations in 2015 with the addition of \$194,215 of interest and bond issuance expenses associated with the System's share of the OPEB bond.

The Metro Transit System Activities

The Metro Transit System's operating revenues decreased approximately \$16,839. This was primarily due to an decrease in advertising revenue. Operating expenses increased approximately \$53,977 due primarily to the addition of \$389,643 of pension expenses recorded under GASB 68, offset by reductions in insurance and other normal operating costs. State operating funding decreased by \$307,067 due to reductions in the state operating revenue percentages and a reduction to eligible expenses. Local revenues increased by \$249,849 due to a transfer from the City of Kalamazoo of \$175,266 and increases in local subsidies. Capital grant funding decreased by approximately \$56,527 due to the completion of the Intelligent Transportation System implementation. As a result of these variances, net position decreased by \$546,214. In a condensed format, the table shows a comparison of the revenues and expenses for 2015 and 2014.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

CONDENSED SUMMARY OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
(Note: The 2014 information is not restated for the implementation of GASB 68)

	2015	2014
Operating Revenue (Expenses)		
Operating revenues	\$ 2,729,080	\$ 2,745,919
Operating expenses	(17,061,922)	(17,007,945)
Operating Loss	(14,332,842)	(14,262,026)
Nonoperating Revenues (Expenses)		
Tax levy	876,306	870,592
Federal grants and reimbursements	2,472,679	2,461,481
State grants and reimbursements	4,260,006	4,567,073
Local grants and reimbursements	4,010,366	3,760,517
Investment income	9,246	9,037
Interest expense on long-term debt	(166,071)	-
Bond issuance expense	(27,144)	-
Gain/loss on sale of capital assets	1,502	549
Total Nonoperating Revenues	11,436,890	11,669,249
Capital Grant Revenue	2,349,738	2,406,368
Change in Net Position	\$ (546,214)	\$ (186,409)

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 2015.

Metro Transit ridership decreased in 2015 by 8.09%, with 2,966,855 passenger trips across all modes. In August 2015, the Kalamazoo regional communities approved a new region-wide transit millage of .75 mills, and established the funding for the Central County Transit Authority (CCTA). In October 2015, the City of Kalamazoo Metro Transit System and the Central County Transit Authority approved the Comprehensive Transfer Agreement. Under this agreement, the operations of the System will be transferred to the new CCTA on October 1, 2016. During 2016, the system is adding a Sunday service and increasing its hours to better meet customer needs. The System continues to expand the Intelligent Transportation System 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.

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, 2015. For the period ending September 30, 2015, the System anticipates State operating assistance to fund 29.7299% of eligible urban expenses and 36.3426% of eligible nonurban expenses. For the quarter ending December 31, 2015, the System anticipates State operating assistance to fund 29.0011% of eligible urban expenses and 35.7560% of eligible nonurban expenses.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2015

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, 2015

ASSETS	
Current assets	
Cash and cash equivalents	\$ 3,263,748
Accounts receivable	37,621
Taxes receivable	72,751
Due from other governmental units	1,528,164
Inventories	379,375
Prepays	<u>138,140</u>
Total current assets	5,419,799
Noncurrent assets	
Net pension asset	6,486,345
Net other post-employment benefits asset	3,556,406
Capital assets not being depreciated	2,012,631
Capital assets, net of accumulated depreciation	<u>22,728,134</u>
Total noncurrent assets	<u>34,783,516</u>
TOTAL ASSETS	40,203,315
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	2,777,421
LIABILITIES	
Current liabilities	
Accounts payable	417,430
Accrued interest payable	14,640
Due to other governmental units	333,178
Unearned revenue	401,331
Current portion of OPEB bonds payable	90,396
Current portion of compensated absences	<u>148,521</u>
Total current liabilities	1,405,496
Noncurrent liabilities	
Noncurrent portion of OPEB bonds payable	4,230,873
Noncurrent portion of compensated absences	<u>37,578</u>
Total noncurrent liabilities	<u>4,268,451</u>
TOTAL LIABILITIES	5,673,947
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>60,275</u>
NET POSITION	
Net investment in capital assets	24,740,765
Unrestricted	<u>12,505,749</u>
TOTAL NET POSITION	<u><u>\$ 37,246,514</u></u>

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2015

OPERATING REVENUES	
Passenger fares	\$ 2,454,023
Special transit	2,024
Other operating revenue	<u>273,033</u>
TOTAL OPERATING REVENUES	2,729,080
OPERATING EXPENSES	
Operations	9,380,063
Maintenance	2,080,116
General administration	<u>5,601,743</u>
TOTAL OPERATING EXPENSES	<u>17,061,922</u>
OPERATING (LOSS)	(14,332,842)
NONOPERATING REVENUES (EXPENSES)	
Tax levy	876,306
Intergovernmental	
Federal sources	2,472,679
State sources	4,260,006
Local sources	4,010,366
Investment income	9,246
Interest expense on long-term debt	(166,071)
Bond issuance expense	(27,144)
Gain on sale of capital assets	<u>1,502</u>
TOTAL NONOPERATING REVENUES	<u>11,436,890</u>
NET (LOSS) BEFORE CAPITAL GRANT REVENUE	(2,895,952)
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	1,862,031
State sources	<u>487,707</u>
TOTAL CAPITAL GRANT REVENUE	<u>2,349,738</u>
CHANGE IN NET POSITION	(546,214)
Restated net position, beginning of year	<u>37,792,728</u>
Net position, end of year	<u><u>\$ 37,246,514</u></u>

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF CASH FLOWS

Year Ended December 31, 2015

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,456,047
Other operating cash receipts	266,967
Cash paid to suppliers	(6,741,772)
Cash paid for employee benefits	(7,186,443)
Cash paid to employees	<u>(3,909,252)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	(15,114,453)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Proceeds from OPEB bonds	4,420,413
Payment on borrowings	(99,144)
Bond issuance expenses paid	(27,144)
Interest paid on long-term debt	(151,431)
Taxes	885,872
Intergovernmental sources	<u>9,028,764</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	14,057,330
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(2,379,083)
Capital contributions	2,183,794
Proceeds from sale of equipment	<u>1,502</u>
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	(193,787)
CASH FLOWS FROM INVESTING ACTIVITIES	
Proceeds from sale of investments	1,000,000
Interest received	<u>12,497</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,012,497</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(238,413)
Cash and cash equivalents, beginning of year	<u>3,502,161</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,263,748</u></u>

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF CASH FLOWS - CONTINUED

Year Ended December 31, 2015

Reconciliation of operating (loss) to net cash (used) by operating activities	
Operating (loss)	\$ (14,332,842)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	2,413,110
(Increase) Decrease in:	
Accounts receivable	(6,066)
Prepays	106,654
Inventories	(41,448)
Deferred outflows of resources related to pensions	(2,777,421)
Net pension asset	2,931,523
Net other post-employment benefits asset	(3,502,822)
Increase (Decrease) in:	
Accounts payable	59,349
Deferred inflows of resources related to pensions	60,275
Compensated absences	(24,765)
 NET CASH (USED) BY OPERATING ACTIVITIES	 <u><u>\$ (15,114,453)</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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, 2015

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 and Cash Equivalents

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.

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, Depreciation, and Long-Term Liabilities

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

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).

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

9. Capital Assets, Depreciation, and Long-Term Liabilities - continued

The eligible depreciation for the year ended September 30, 2015, of \$22,523 (\$2,354,933 total depreciation reported in Operating Assistance Report (OAR) code 51300 for both Urban and Nonurban less ineligible depreciation of \$2,332,410 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.

Long-term liabilities are recognized in the basic financial statements when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

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 and liabilities, the statement of financial position will, when applicable, report separate sections for deferred outflows of resources and deferred inflows of resources. *Deferred outflows of resources*, a separate financial statement element, represents a consumption of net position that applies to a future period and so will not be recognized as an outflow of resources (expense) until that time. *Deferred inflows of resources*, a separate financial statement element, represents an acquisition of net position that applies to a future period and so will not be recognized as an inflow of resources (revenue) until that time.

The System reports deferred outflows of resources which correspond to the System's net pension asset and are related to changes in assumptions and differences between projected and actual pension plan investment earnings. The System also reports deferred inflows of resources which correspond to the System's net pension asset and are related to differences between expected and actual experience. These amounts are deferred and recognized as an outflow or inflow of resources in the period to which they apply.

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).

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.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

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

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. Eligible pension 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 B: CASH

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>\$ 3,263,048</u>	<u>\$ 2,834,240</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, 2015

NOTE B: CASH - CONTINUED

Custodial Credit Risk

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.

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 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.

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.

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at December 31, 2015, by grant type and grant award year are as follows:

Federal Section 5309 Capital - FY 2006	\$	8,674
Federal Section 5307 Capital - FY 2013		223,787
Federal Section 5311 Operating - FY 2015		2,170
Federal Section 5311 Operating - FY 2016		5,794
Federal Section 5310 Operating - FY 2012		71,703
State Operating Assistance - FY 2016		7,360
State Operating Assistance - FY 2014		83,821
State Operating Assistance - FY 2011		37,024
Ridesharing Fellowship - FY 2012		14,774
Specialized Services - FY 2015		7,500
City of Kalamazoo		1,042,037
Kalamazoo Valley Community College		<u>23,520</u>
Total	\$	<u><u>1,528,164</u></u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2015, was as follows:

	Balance Jan. 1, 2015	Additions/ Reclassifications	Deletions/ Reclassifications	Balance Dec. 31, 2015
Capital assets not being depreciated				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	77,301	10,097	(87,398)	-0-
Subtotal	2,089,932	10,097	(87,398)	2,012,631
Capital assets being depreciated				
Building and improvements	18,077,671	98,179	-	18,175,850
Land improvements	325,335	-	-	325,335
Machinery and equipment	2,181,123	277,552	(132,556)	2,326,119
Vehicles	16,546,046	2,065,653	(974,895)	17,636,804
Intangible assets	2,925,444	15,000	-	2,940,444
Subtotal	40,055,619	2,456,384	(1,107,451)	41,404,552
Less accumulated depreciation for:				
Building and improvements	(6,582,158)	(518,489)	-	(7,100,647)
Land improvements	(271,570)	(5,316)	-	(276,886)
Machinery and equipment	(1,800,343)	(111,328)	132,556	(1,779,115)
Vehicles	(8,248,825)	(1,474,636)	974,895	(8,748,566)
Intangible assets	(467,863)	(303,341)	-	(771,204)
Subtotal	(17,370,759)	(2,413,110)	1,107,451	(18,676,418)
Net capital assets being depreciated	22,684,860	43,274	-0-	22,728,134
Capital assets, net	<u>\$ 24,774,792</u>	<u>\$ 53,371</u>	<u>\$ (87,398)</u>	<u>\$ 24,740,765</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 \$1,107,451 and accumulated depreciation of \$1,107,451. Depreciation expense in the amount of \$2,413,110 was reported for year ended December 31, 2015.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the System for the year ended December 31, 2015:

	Balance Jan. 1, 2015	Additions	Deletions	Balance Dec. 31, 2015	Amounts Due Within One Year
2015 OPEB bonds	\$ -	\$ 4,420,413	\$ (99,144)	\$ 4,321,269	\$ 90,396

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE E: LONG-TERM DEBT - CONTINUED

Significant details regarding the outstanding long-term debt (including the current portion) are presented below:

\$4,420,413 Limited Tax General Obligation Bonds dated January 7, 2015, due in annual installments of \$90,396 to \$254,421 through December 1, 2044, with interest ranging from .750% to 4.670%, payable semi-annually. \$ 4,321,269

The annual requirements to pay the debt principal and interest outstanding for the above loan payable are as follows:

<u>Year Ending December 31,</u>	<u>Principal</u>	<u>Interest</u>
2016	\$ 90,396	\$ 175,680
2017	91,611	174,674
2018	93,069	173,233
2019	94,770	171,400
2020	96,957	169,201
2021-2025	529,011	801,914
2026-2030	629,856	701,106
2031-2035	775,413	555,448
2036-2040	968,841	362,015
2041-2044	951,345	113,606
	<u>\$ 4,321,269</u>	<u>\$ 3,398,277</u>

NOTE F: COMPENSATED ABSENCES

Compensated absences activity for the year ended December 31, 2015, was as follows:

	<u>Balance Jan. 1, 2015</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Dec. 31, 2015</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 210,864</u>	<u>\$ 459,938</u>	<u>\$ (484,703)</u>	<u>\$ 186,099</u>	<u>\$ 148,521</u>

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 \$186,099 for vacation and sick at December 31, 2015. The amounts of \$148,521 and \$37,578 have been reported as current and noncurrent liabilities, respectively.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G: DEFINED BENEFIT PENSION PLAN

Plan Administration

The City of Kalamazoo Employees' Retirement System (the ERS) is a single-employer defined benefit contributory plan which provides pension, disability, and death benefits to all full-time employees and some part-time employees of the City of Kalamazoo, Michigan (the City).

The ERS is was originally established by City ordinance on February 5, 1952, and is maintained as a Pension Trust Fund in the City's financial statements. The ERS is administered by the City of Kalamazoo Employees' Retirement System Pension Board of Trustees. The Board consists of five (5) individual trustees either elected or appointed in accordance with the City Ordinance. One (1) member is a City Commissioner and one (1) member is the City Manager. The remaining three (3) members, including one (1) Public Safety representative and one (1) General Member representative, are elected by active members of the retirement system. All elected terms are three (3) years. Plan benefit provisions were established and may be amended under the authority of City Ordinances. Employee contribution requirements were established and may be amended subject to collective bargaining agreements and approval by the City Commission of the City of Kalamazoo. The ERS 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 Employees' Retirement System, 241 W. South Street, Kalamazoo, MI 49007.

Plan Membership

At December 31, 2015, pension plan membership (including employees of the City) consisted of the following:

Inactive employees or beneficiaries receiving benefits	957
Inactive employees entitled to but not yet receiving benefits	48
Active employees	<u>628</u>
Total employees covered by the plan	<u><u>1,633</u></u>

Benefits Provided

The ERS provides retirement, death and disability benefits to plan members and their beneficiaries. Members are eligible for benefits at age 57 with 25 years of service or age 62 with 10 years of service. Retirement benefits for plan members are calculated as total service times 2.1% of the final average salary.

Early retirement - Members are eligible for benefits at age 55 with 15 or more years of service. Retirement benefits are calculated as regular retirement but reduced by 4/10 of 1 percent for each month and fraction of a month by which retirement precedes age 62 if less than 25 years of service or age 57 if 25 or more years of service.

Deferred retirement - Members are eligible for benefits with 10 years of service for most members, and 5 years for exempt members hired before September 1, 2010. Benefits begin at age 62 for general members. Retirement benefits for general members are calculated as regular or early retirement but based upon service and final average compensation at termination date.

Death and disability - Members are eligible for benefits, in accordance with plan provisions, after 10 years of service for most members, 5 years for exempt members hired before September 1, 2010. Service requirements are waived for duty disability and death benefits.

Benefit terms provide for annual cost-of-living adjustments to each member's retirement allowance subsequent to the member's retirement date. Pensions of Transit Union members are increased 1 percent per year, compounded annually, beginning 1 year after retirement and 2 percent per year, compounded annually, beginning at age 75. Pensions of exempt members are increased 1.5 percent per year, compounded annually, beginning 1 year after retirement for members who elected to contribute by May 2006.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Contributions

Transit members are required to contribute 1.0 percent of annual compensation to the ERS for pension benefits. The System is required to contribute such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. No employer contributions were required for the year ended December 31, 2015; however, the System chose to contribute \$175,265.

Rate of Return

For the year ended December 31, 2015, the annual money-weighted rate of return on pension plan investments, net of pension plan investment expense, was (1.62) percent. The money-weighted rate of return expresses investment performance, net of investment expense, adjusted for the changing amounts actually invested.

Net Pension Asset

The net pension asset reported at December 31, 2015 was determined using a measure of the total pension liability and the pension net position as of December 31, 2015. The December 31, 2015 total pension liability was determined by an actuarial valuation performed as of that date.

Changes in the net pension asset during the measurement year were as follows:

	<u>Increase (Decrease)</u>		
	<u>Total Pension Liability</u>	<u>Plan Fiduciary Net Position</u>	<u>Net Pension Liability (Asset)</u>
<u>Changes in Net Pension Liability (Asset)</u>	<u>(a)</u>	<u>(b)</u>	<u>(a)-(b)</u>
Balances at December 31, 2014	\$ 22,725,142	\$ 32,143,010	\$ (9,417,868)
Changes for the year			
Service cost	317,967	-	317,967
Interest on total pension liability	1,661,663	-	1,661,663
Difference between expected and actual experience	(80,926)	-	(80,926)
Changes in assumptions	642,855	-	642,855
Employer contributions	-	175,265	(175,265)
Employee contributions	-	55,748	(55,748)
Net investment income	-	(512,590)	512,590
Benefit payments, including employee refunds	(1,457,251)	(1,457,251)	-0-
Administrative expense	-	(6,463)	6,463
Other	-	(101,924)	101,924
Net changes	<u>1,084,308</u>	<u>(1,847,215)</u>	<u>2,931,523</u>
Balances as of December 31, 2015	<u>\$ 23,809,450</u>	<u>\$ 30,295,795</u>	<u>\$ (6,486,345)</u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Pension Expenses and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended December 31, 2015, the System reported deferred outflows and inflows of resources related to pensions from the following sources:

	<u>Deferred Outflows of Resources</u>	<u>Deferred Inflows of Resources</u>
Differences between expected and actual experience	\$ -	\$ 60,275
Changes in assumptions	478,807	-
Net difference between projected and actual earnings on pension plan investments	<u>2,298,614</u>	<u>-</u>
Total	<u><u>\$ 2,777,421</u></u>	<u><u>\$ 60,275</u></u>

Amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

<u>Year Ended December 31,</u>	<u>Pension Expense</u>
2016	\$ 718,050
2017	718,050
2018	706,392
2019	<u>574,654</u>
	<u><u>\$ 2,717,146</u></u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Actuarial Assumptions

The total pension liability was determined by an actuarial valuation as of December 31, 2015, using the following actuarial assumptions, applied to all periods including in the measurement:

Projections of benefits for financial reporting purposes are based on the substantive plan (the plan 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 of 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.

Actuarial Cost Method	Entry-Age Normal
Amortization Method	Level Percent-of-Payroll, Open Period
Remaining Amortization Period	10 years
Asset Valuation Method	5-Year smoothed market
Inflation	3.5% (which includes price inflation of 2.75%)
Salary Increases	3.5% to 15.5% including inflation
Investment Rate of Return	7.50%
Retirement Age	Experience-based table of rates that are specific to the type of eligibility condition. Last updated for the 2014 valuation pursuant to an experience study of the period 2009 - 2013.
Mortality	RP-2000 Mortality Combined Healthy Tables, projected 20 years with U.S. Projection Scale BB

The actuarial assumptions used in the valuation were based on the results of an actuarial experience study for the period January 1, 2015 through December 31, 2015.

Discount Rate

The discount rate used to measure the total pension liability was 7.5 percent. The projection of cash flows used to determine the discount rate assumed that member contributions will be made at the current contribution rate and that System's contributions will be made at rates equal to the difference between actuarially determined contribution rates and the member rate. Based on these assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

Projected Cash Flows

Based on those assumptions, the Plan's fiduciary net position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all future periods of projected benefit payments to determine the total pension liability.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Projected Cash Flows - continued

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

<u>Asset Class</u>	<u>Target Allocation</u>	<u>Long-Term Expected Real Rate of Return</u>
U.S. Small Cap (Manager 1)	5.00%	6.00%
U.S. Small Cap (Manager 2)	10.00%	6.00%
International Developed Equity	10.00%	5.00%
U.S. Large Cap (Manager 1)	30.00%	5.00%
U.S. Large Cap (Manager 2)	5.00%	5.00%
Emerging Markets	10.00%	6.75%
Domestic Fixed Income	25.00%	0.75%
Real Estate (Manager 1)	2.50%	3.75%
Real Estate (Manager 2)	2.50%	3.75%
Total	100.00%	

Sensitivity of the Net Pension Asset to Changes in the Discount Rate

The following presents the System's net pension asset, calculated using the discount rate of 7.5%, as well as what the System's net pension asset would be if it were calculated using a discount rate that is 1 percent lower (6.5 percent) or 1 percent higher (8.5 percent) than the current rate:

	<u>1% Decrease 6.50%</u>	<u>Discount Rate 7.50%</u>	<u>1% Increase 8.50%</u>
Total pension liability	\$ 26,659,473	\$ 23,809,451	\$ 21,435,738
Plan fiduciary net position	30,295,796	30,295,796	30,295,796
Net pension liability (asset)	\$ (3,636,323)	\$ (6,486,345)	\$ (8,860,058)

NOTE H: 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.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE H: RISK MANAGEMENT - CONTINUED

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 I: 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.

NOTE J: 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>118</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.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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.

For year ended December 31, 2015, the System's annual cost for other post-employment benefits (OPEB) was \$891,615. 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)	\$ 890,659
Interest on net OPEB obligation	(2,143)
Adjustment to annual required contribution	<u>3,099</u>
Annual OPEB cost	891,615
Contributions made	<u>4,394,437</u>
(Decrease) in net OPEB obligation	(3,502,822)
Net OPEB asset - beginning of year	<u>(53,584)</u>
Net OPEB asset - end of year	<u><u>\$ (3,556,406)</u></u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

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

	<u>2013</u>	<u>2014</u>	<u>2015</u>
Annual OPEB cost	\$ 789,227	\$ 616,600	\$ 891,615
Percentage contributed	552.0%	133.9%	492.9%
Net OPEB obligation (asset)	155,143	(53,584)	(3,556,406)

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

	<u>2009</u>	<u>2011</u>	<u>2013</u>
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%

NOTE K: 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 \$1.489 billion representing 50% of estimated current market value. For the year ended December 31, 2015, the System levied 0.6000 mills.

NOTE L: 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 M: CHANGE IN ACCOUNTING PRINCIPLES

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions*, was implemented during the year. The statement requires governments providing defined benefit pensions to recognize unfunded pension benefit obligation as a liability for the first time, and to more comprehensively and comparable measure the annual costs of pension benefits. The statement also enhances accountability and transparency through revised note disclosures and required supplementary information (RSI).

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2015

NOTE N: RESTATEMENT OF NET POSITION

Beginning net position has been restated for general operating activities due to changes in accounting principles, as described in Note M.

Beginning net position	\$ 28,509,212
Net pension asset	<u>9,283,516</u>
Restated beginning net position	<u>\$ 37,792,728</u>

NOTE O: UPCOMING ACCOUNTING PRONOUNCEMENTS

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.

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.

In August 2015, the GASB issued Statement No. 77, *Tax Abatement Disclosures*. The statement improves financial reporting through the disclosure of information about the nature and magnitude of tax abatements that are not consistently or comprehensively reported to the public at present. The System is currently evaluating the impact this standard will have on the financial statements when adopted during the 2017 fiscal year.

NOTE P: SUBSEQUENT EVENTS

On February 15, 2016, the Board approved the purchase of three (3) Gillig 40' buses for an amount not to exceed \$1,287,819.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF CHANGES IN EMPLOYER'S NET PENSION ASSET AND RELATED RATIOS

Last Fiscal Year (Ultimately ten fiscal years will be displayed)
(Amounts were determined as of 12/31 of each fiscal year)

	2015
Total Pension Liability	
Service cost	\$ 317,967
Interest	1,661,663
Difference between expected and actual experience	(80,926)
Changes of assumptions	642,855
Benefit payments, including employee refunds	(1,457,251)
Net Change in Total Pension Liability	1,084,308
Total Pension Liability, beginning	22,725,142
Total Pension Liability, ending	\$ 23,809,450
Plan Fiduciary Net Position	
Contributions - employer	\$ 175,265
Contributions - employee	55,747
Net investment income	(512,590)
Benefit payments, including employee refunds	(1,457,251)
Administrative expense	(6,463)
Other	(101,923)
Net Change in Plan Fiduciary Net Position	(1,847,215)
Plan Fiduciary Net Position, beginning	32,143,010
Plan Fiduciary Net Position, ending	\$ 30,295,795
Employer's Net Pension (Asset)	\$ (6,486,345)
Plan Fiduciary Net Position as a percentage of the Total Pension Liability	127.24%
Covered employee payroll	\$ 1,911,646
Employer's Net Pension (Asset) as a percentage of covered employee payroll	(339.31%)

City of Kalamazoo, Michigan
Metro Transit System

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Fiscal Year (Ultimately ten fiscal years will be displayed)
(Amounts were determined as of 12/31 of each fiscal year)

	<u>2015</u>
Actuarially determined contributions	\$ -
Contributions in relation to the actuarially determined contribution	<u>175,265</u>
Contribution deficiency (excess)	<u><u>\$ (175,265)</u></u>
Covered employee payroll	\$ 1,911,646
Contributions as a percentage of covered employee payroll	9.17%

City of Kalamazoo, Michigan
Metro Transit System

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year (Ultimately ten fiscal years will be displayed)
(Amounts were determined as of 12/31 of each fiscal year)

	<u>2015</u>
Annual money-weighted rate of return, net of investment expense	-1.62%

City of Kalamazoo, Michigan
Metro Transit System

OTHER POST-EMPLOYMENT BENEFIT PLAN

Year Ended December 31, 2015

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
2015	\$ 891,615	493%	\$ (3,556,406)
2014	616,600	134%	(53,584)
2013	789,227	552%	155,143

OTHER SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended December 31, 2015

	<u>1/1/2015 to 9/30/2015</u>	<u>10/1/2015 to 12/31/2015</u>	<u>Total</u>
Passenger fares	\$ 1,831,966	\$ 622,057	\$ 2,454,023
Special transit	-	2,024	2,024
Other operating revenue	165,297	107,736	273,033
Tax levy	880,038	(3,732)	876,306
Local operating assistance	3,188,816	821,550	4,010,366
Investment income	2,247	6,999	9,246
Gain (loss) on sale of capital assets	<u>1,402</u>	<u>100</u>	<u>1,502</u>
 TOTAL LOCAL REVENUES	<u>\$ 6,069,766</u>	<u>\$ 1,556,734</u>	<u>\$ 7,626,500</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2015

	<u>10/1/2014 to 12/31/2014</u>	<u>1/1/2015 to 9/30/2015</u>	<u>Total</u>
Passenger fares	\$ 623,706	\$ 1,831,966	\$ 2,455,672
Special transit	1,579	-	1,579
Other operating revenue	111,569	165,297	276,866
Tax levy	(1,141)	880,038	878,897
Local operating assistance	807,529	3,188,816	3,996,345
Investment income	4,675	2,247	6,922
Gain (loss) on sale of capital assets	<u>(2,342)</u>	<u>1,402</u>	<u>(940)</u>
TOTAL LOCAL REVENUES	<u>\$ 1,545,575</u>	<u>\$ 6,069,766</u>	<u>\$ 7,615,341</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended December 31, 2015

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Restated 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 5339 (80/20)	20.500	MI-04-0047/2007-0239/Z14	\$ 2,937,418	\$ 1,794,221	\$ 1,435,377	\$ 358,844	\$ 1,143,197	\$ -0-
Federal Transit - Formula Grants	20.507							
Capital Grant - Section 5307(80/20)		MI-95-X073/2007-0239/Z23	167,266	-0-	-	-	145,137	22,129
Capital Grant - Section 5307(80/20)		MI-95-X080/2012-0112/P4	238,519	195,126	156,101	39,025	36,411	6,982
Capital Grant - Section 5307(80/20)		MI-90-X677/2012-0112/P8	2,256,406	338,191	270,553	67,638	526,898	1,391,317
Capital Grant - Section 5307(80/20)		MI-95-X102/2012-0112/P9	235,206	-0-	-	-	218,466	16,740
Capital Grant - Section 5307(80/20)		MI-95-X112/2012-0112/P9	602,461	-0-	-	-	-	602,461
Operating Grant - Section 5307		MI-90-X677-01	2,383,966	2,383,966	2,383,966	-	-	-0-
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513							
Capital Grant - Section 5310 (80/20)		MI-16-X012-00/2012-0122/P16	122,645	-0-	-	-	-	122,645
Operating Grant - Section 5310		MI-16-X012-00/2012-0112/P16	391,426	71,703	64,498	7,205	-	319,723
Bus and Bus Facilities Formula Program Capital Grant - Section 5339(80/20)	20.526	MI-34-0009-00	723,594	-0-	-	-	-	723,594
Passed through Michigan Department of Transportation								
Formula Grants for Rural Areas	20.509							
Operating Assistance - Section 5311 (FY 16)		MI-18-X055-07/2012-0112/P19	5,794	5,794	5,794	-	-	-0-
Operating Assistance - Section 5311 (FY 15)		MI-18-X055-04/2012-0112/P15	32,184	11,134	11,134	-	6,904	14,146
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY16)		N/A	4,522,652	1,047,604	-	1,047,604	-	3,475,048
Operating Assistance (FY15)		N/A	4,552,858	3,088,146	-	3,088,146	1,179,015	285,697
Ridesharing Fellowship	N/A							
2014-2015		N/A	115,582	30,964	-	30,964	1,750	82,868
2014-2015 - Capital		N/A	22,200	22,200	-	22,200	-	-0-
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			\$ 19,370,177	\$ 9,019,049	\$ 4,327,423	\$ 4,691,626	\$ 3,280,278	\$ 7,070,850
				(a)	(a)	(a)		

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Year Ended December 31, 2015

(a) The following reconciles the total Federal and State revenues reported in the December 31, 2015, 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	\$ 4,334,710	\$ (7,287)	\$ 4,327,423
State	4,747,713	(56,087)	4,691,626
	\$ 9,082,423	\$ (63,374)	\$ 9,019,049

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended December 31, 2015

	1/1/2015 to 9/30/2015	10/1/2015 to 12/31/2015	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 3,088,146	\$ 1,047,604	\$ 4,135,750
U.S. Department of Transportation - Section 5310	-	7,205	7,205
Fellowship	16,189	14,775	30,964
Specialized Services	22,500	7,500	30,000
Total State Operating Grants	3,126,835	1,077,084	4,203,919
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	11,134	5,794	16,928
U.S. Department of Transportation - Section 5310	-	64,498	64,498
Total Federal Operating Grants	1,900,100	565,292	2,465,392
TOTAL OPERATING GRANTS - STATE AND FEDERAL	\$ 5,026,935	\$ 1,642,376	\$ 6,669,311

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended September 30, 2015

	10/1/2014 to 12/31/2014	1/1/2015 to 9/30/2015	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 1,179,015	\$ 3,088,146	\$ 4,267,161
U.S. Department of Transportation - Section 5317	14,146	-	14,146
Fellowship	926	16,189	17,115
Specialized Services	7,500	22,500	30,000
Total State Operating Grants	1,201,587	3,126,835	4,328,422
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	6,904	11,134	18,038
U.S. Department of Transportation - Section 5317	56,585	-	56,585
Total Federal Operating Grants	558,489	1,900,100	2,458,589
TOTAL OPERATING GRANTS - STATE AND FEDERAL	\$ 1,760,076	\$ 5,026,935	\$ 6,787,011

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended December 31, 2015

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Total</u>
Labor	\$ 3,907,078	\$ 2,174	\$ -	\$ 3,909,252
Fringe benefits	3,871,305	1,928	-	3,873,233
Services	1,572,274	8,723	-	1,580,997
Materials and supplies	1,354,129	936	-	1,355,065
Utilities	308,951	2,419	-	311,370
Insurance	330,293	601	-	330,894
Taxes and fees	1,017	-	-	1,017
Purchased services	2,964,595	81,635	30,000	3,076,230
Miscellaneous	235,335	2,563	-	237,898
Interest on long-term debt	166,071	-	-	166,071
Depreciation	2,390,067	23,043	-	2,413,110
 Total expenses	 <u>\$ 17,101,115</u>	 <u>\$ 124,022</u>	 <u>\$ 30,000</u>	 <u>\$ 17,255,137</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, 2015

	Urban			Nonurban		
	1/1/2015 to 9/30/2015	10/1/2015 to 12/31/2015	Total	1/1/2015 to 9/30/2015	10/1/2015 to 12/31/2015	Total
Labor	\$ 2,802,174	\$ 1,104,904	\$ 3,907,078	\$ 1,273	\$ 901	\$ 2,174
Fringe benefits	2,699,693	1,171,612	3,871,305	858	1,070	1,928
Services	1,143,308	428,966	1,572,274	4,233	4,490	8,723
Materials and supplies	1,018,989	335,140	1,354,129	515	421	936
Utilities	234,279	74,672	308,951	1,529	890	2,419
Insurance	235,727	94,566	330,293	375	226	601
Taxes and fees	756	261	1,017	-	-	-0-
Purchased services	2,233,845	730,750	2,964,595	50,950	30,685	81,635
Miscellaneous	75,761	159,574	235,335	252	2,311	2,563
Interest on long-term debt	63,219	102,852	166,071	-	-	-0-
Depreciation	1,795,455	594,612	2,390,067	14,380	8,663	23,043
Total expenses	\$ 12,303,206	\$ 4,797,909	\$ 17,101,115	\$ 74,365	\$ 49,657	\$ 124,022

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING EXPENSES BY PROGRAM

Year Ended September 30, 2015

	Urban			Nonurban		
	10/1/2014 to 12/31/2014	1/1/2015 to 9/30/2015	Total	10/1/2014 to 12/31/2014	1/1/2015 to 9/30/2015	Total
Labor	\$ 1,004,270	\$ 2,802,174	\$ 3,806,444	\$ 872	\$ 1,273	\$ 2,145
Fringe benefits	989,017	2,699,693	3,688,710	772	858	1,630
Services	391,504	1,143,308	1,534,812	3,257	4,233	7,490
Materials and supplies	469,362	1,018,989	1,488,351	310	515	825
Utilities	83,987	234,279	318,266	796	1,529	2,325
Insurance	163,521	235,727	399,248	164	375	539
Taxes and fees	230	756	986	-	-	-0-
Purchased services	696,886	2,233,845	2,930,731	30,022	50,950	80,972
Miscellaneous	154,101	75,761	229,862	1,475	252	1,727
Interest on long-term debt	-	63,219	63,219	-	-	-0-
Depreciation	539,416	1,795,455	2,334,871	5,682	14,380	20,062
Total expenses	\$ 4,492,294	\$ 12,303,206	\$ 16,795,500	\$ 43,350	\$ 74,365	\$ 117,715

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4R
URBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2015

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 2,397,718
406	Auxiliary trans revenues	
40615	Advertising	69,087
40620	Intercity ticket sales	83,885
407	Nontrans revenues	
40720	Rental of buildings or other property	112,179
40725	Parking lot revenue	1,059
40760	Gain (loss) from sale of capital assets	(917)
40799	Other nontransportation revenue	13,605
408	Local revenue	
40800	Taxes levied directly for/by transit agency	858,155
409	Local revenue	
40910	Local operating assistance	3,730,902
40999	Other local contracts and reimbursements	1,541
411	State formula and contracts	
41101	State operating assistance	4,231,727
41114	Other capital contract reimbursement for operating expense	24,444
413	Federal contracts	
41302	Federal Section 5307 operating	2,383,966
41399	Other federal transit contracts and reimbursements	64,096
414	Other revenue	
41400	Interest income	<u>6,759</u>
	TOTAL URBAN SERVICE REVENUE	<u><u>\$ 13,978,206</u></u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2015

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operators' salaries and wages	\$ 2,295,579	\$ -	\$ -	\$ 2,295,579
50102	Other salaries and wages	153,573	781,990	329,677	1,265,240
50103	Dispatchers' salaries and wages	245,625	-	-	245,625
502	Fringe benefits				
50200	Other fringe benefits	1,755,101	610,020	323,315	2,688,436
50202	Other post-employment benefits	-	-	1,000,274	1,000,274
503	Services				
50302	Advertising fees	-	-	16,582	16,582
50305	Audit cost	-	-	8,143	8,143
50399	Other services	295,891	77,684	1,136,512	1,510,087
504	Materials and supplies				
50401	Fuel and lubricants	783,288	5,428	508	789,224
50402	Tires and tubes	43,483	-	-	43,483
50499	Other materials and supplies	37,266	581,310	37,068	655,644
505	Utilities				
50500	Utilities	112,448	891	204,927	318,266
506	Insurance				
50603	Liability insurance	336,857	-	-	336,857
50699	Other insurance	-	-	62,391	62,391
507	Taxes and fees				
50700	Taxes and fees	711	275	-	986
508	Purchased trans service				
50800	Purchased trans service	2,930,731	-	-	2,930,731
509	Miscellaneous expenses				
50902	Travel, meetings, and training	3,288	13,917	8,254	25,459
50903	Association dues and subscriptions	-	-	29,162	29,162
50999	Other miscellaneous expenses	-	-	175,241	175,241
511	Interest				
51101	Interest on long-term debt	-	-	63,219	63,219
513	Depreciation				
51300	Depreciation	-	-	2,334,871	2,334,871
550	Ineligible expenses				
55004	Other ineligible state contracts	-	-	8,858	8,858
55007	Ineligible depreciation	-	-	2,312,619	2,312,619
55009	Ineligible percent of association dues	-	-	3,437	3,437
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	40,328	-	19,965	60,293
56004	Ineligible expenses associated w/rentals	-	-	30,608	30,608
570	Ineligible expenses				
57604	Ineligible administrative expenses paid by capital contract	-	-	143,001	143,001
57099	Other ineligible Federal/State/Local	-	-	65,645	65,645
580	Ineligible expenses				
58007	Ineligible fringe benefits	-	-	(62,869)	(62,869)
				Total expenses	16,795,500
				Total ineligible expenses	<u>2,561,592</u>
				Total eligible expenses	<u>\$ 14,233,908</u>

City of Kalamazoo, Michigan
Metro Transit System

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

Year Ended September 30, 2015

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	2,574,809	296,285	-	2,871,094

⁽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, 2015

<u>Code</u>	<u>Description</u>	<u>Amount</u>
401	Farebox revenue	
40100	Passenger fares	\$ 57,954
406	Auxiliary trans revenues	
40615	Advertising	(8,044)
40620	Intercity ticket sales	2,028
407	Nontrans revenues	
40720	Rental of buildings or other property	2,712
40725	Parking lot revenue	26
40760	Gain (loss) from sale of capital assets	(23)
40799	Other nontransportation revenue	329
408	Local revenue	
40800	Taxes levied directly for/by transit agency	20,742
409	Local revenue	
40910	Local operating assistance	90,177
40999	Other local contracts and reimbursements	38
411	State formula and contracts	
41101	State operating assistance	35,434
41114	Other capital contract reimbursement for operating expenses	591
413	Federal contracts	
41301	Federal Section 5311	18,038
41399	Other federal transit contracts and reimbursements	1,549
414	Other revenue	
41400	Interest income	163
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 221,714</u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2015

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50102	Other salaries and wages	\$ 2,145	\$ -	\$ -	\$ 2,145
502	Fringe benefits				
50200	Other fringe benefits	1,630	-	-	1,630
503	Services				
50302	Advertising fees	-	-	122	122
50305	Audit cost	-	-	57	57
50399	Other services	457	-	6,854	7,311
504	Materials and supplies				
50401	Fuel and lubricants	457	-	4	461
50499	Other materials and supplies	121	-	243	364
505	Utilities				
50500	Utilities	544	-	1,781	2,325
506	Insurance				
50699	Other insurance	-	-	539	539
508	Purchased trans service				
50800	Purchased trans service	80,972	-	-	80,972
509	Miscellaneous expenses				
50902	Travel, meetings, and training	-	-	71	71
50903	Association dues and subscriptions	-	-	254	254
50999	Other miscellaneous expenses	-	-	1,402	1,402
513	Depreciation				
51300	Depreciation	-	-	20,062	20,062
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	19,791	19,791
55009	Ineligible percent of association dues	-	-	31	31
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	-	-	210	210
56004	Ineligible expenses associated w/rentals	-	-	294	294
570	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	-	-	1,507	1,507
580	Ineligible expenses				
58007	Ineligible fringe benefits	-	-	(1,618)	(1,618)
				Total expenses	117,715
				Total ineligible expenses	<u>20,215</u>
				Total eligible expenses	<u><u>\$ 97,500</u></u>

City of Kalamazoo, Michigan
Metro Transit System

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

Year Ended September 30, 2015

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	30,407	1,604	-	32,011

⁽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, 2015

	Urban	Nonurban
Total expenses	\$ 16,795,500	\$ 117,715
Less ineligible expenses		
Other ineligible State contracts	8,858	-
Ineligible depreciation	2,312,619	19,791
Ineligible percent of association dues	3,437	31
Ineligible expenses associated w/advertising	60,293	210
Ineligible expenses associated w/rentals	30,608	294
Other ineligible operating expenses paid by capital contract	143,001	1,507
Other ineligible Federal/State/Local	65,645	-
Ineligible fringe benefits	(62,869)	(1,618)
Total ineligible expenses per R&E manual	2,561,592	20,215
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 14,233,908	\$ 97,500
Eligible expenses for State reimbursement	\$ 14,233,908	\$ 97,500
x Reimbursement percentage	29.7299%	36.3426%
State operating assistance	\$ 4,231,727	\$ 35,434
Eligible expenses for Federal reimbursement		\$ 97,500
x Reimbursement percentage	N/A	18.50%
Federal operating assistance	\$ 2,383,966	\$ 18,038

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 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, 2015, 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 28, 2016.

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 28, 2016