

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

**FINANCIAL STATEMENTS**

**December 31, 2012**

City of Kalamazoo, Michigan  
Metro Transit System

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INDEPENDENT AUDITOR'S REPORT

To the 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, 2012, 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 opinions 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 *Governmental 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 risk 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, 2012, and the respective 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 Principle**

As discussed in Note M, the System implemented GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, during 2012. As a result of this implementation, the financial statements have changed to reflect the required components of GASB Statement No. 63. 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, 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.

Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information, 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 information is fairly stated in all material respects in relation to the basic financial statements as a whole.

The other supplementary information 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 27, 2013, 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, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on 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 27, 2013

City of Kalamazoo, Michigan  
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

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, 2012 and 2011. 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 therefore these statements are presented using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and measurable, not when received. Expenses are recognized when they are incurred, not when paid. Capital assets are capitalized and depreciated, except for land and construction in progress, over their estimated useful lives.

The Statement of Net Position presents information on all of the System's assets and liabilities, with the difference between the two reported as net position. Note, the System does not report deferred outflows of resources or deferred inflows of resources at December 31, 2012, or 2011. If the System had recorded deferred outflows of resources or deferred inflows of resources, these would be reflected in the Statement of Net Position as well. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Net positions increase when revenues exceed expenses. Increases in assets and deferred outflows or resources without corresponding increases to liabilities and deferred inflows or resources result in increased net position, which would indicate improved financial position.

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, 2012

**FINANCIAL ANALYSIS - COMPARATIVE**

The Metro Transit System's total net position decreased approximately 9% from a year ago - decreasing from \$28,075,196 to \$25,616,092. In a condensed format, the table below shows a comparison of the net position as of December 31, 2012, to the prior year December 31, 2011.

CONDENSED SUMMARY OF NET POSITION

	<u>2012</u>	<u>2011</u>
Current Assets	\$ 8,859,991	\$ 12,446,288
Capital Assets, net	<u>23,845,237</u>	<u>23,784,890</u>
Total Assets	32,705,228	36,231,178
Current Liabilities	6,545,762	4,743,003
Noncurrent Liabilities	<u>543,374</u>	<u>3,412,979</u>
Total Liabilities	7,089,136	8,155,982
Net Position		
Investment in capital assets	23,845,237	23,784,890
Unrestricted	<u>1,770,855</u>	<u>4,290,306</u>
Total Net Position	<u><u>\$ 25,616,092</u></u>	<u><u>\$ 28,075,196</u></u>

**Current Assets**

The 29% decrease in current assets is due to a decrease in cash and cash equivalents and due from other governments.

**Cash and cash equivalents**

Cash and cash equivalents decreased by 50% as compared to December 31, 2011. Of this decrease, \$996,519, or 21%, is due to investing cash in investments. The remaining decrease is due to timing of the collection of receivables and payment of liabilities.

**Due from other governmental units**

This amount represents amounts due from the State of Michigan or Federal government for capital and operating grants. Also included in this amount are amounts due from the City of Kalamazoo for various purposes. The 54% decrease is due to the collection of outstanding amounts due at December 31, 2011. In addition, there was a reduction in overall grant activity in 2012 as compared to 2011 due to the completion of the renovations of the administrative facility and timing of bus purchases.

**Capital Assets, Net of Depreciation**

As of December 31, 2012, the System had capital assets with a historical cost of approximately \$39,394,999. This is an increase of \$1,230,685 from 2011. The System completed renovations on the Kalamazoo Transportation Facility and administration building in 2012, transferring \$2,082,084 from construction in progress to buildings and improvements. In addition, the System began designing and implementing an Intelligent Transportation System for \$2,036,061. In addition, the system added four (4) extended vans to the fleet, and disposed of eight (8) fully depreciated buses and vans. Other additions include software and equipment used to operate and maintain the System.

City of Kalamazoo, Michigan  
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

**Net Position**

At December 31, 2012, 93% 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 System's beginning net position was restated to decrease net position by \$80,945 due to a recalculation of eligible urban and nonurban expenses covered by State of Michigan and Federal operating grants.

**The Metro Transit System Activities**

The Metro Transit System's operating revenues increased approximately \$66,479. This was primarily due to an increase in fare-paying passengers offset by a decrease in special transit service. Operating expenses increased approximately \$41,838, primarily due to increases in liability insurance and services, offset by decreases in the cost of other post-employment benefits due to new actuarial evaluations. Capital grant funding decreased by approximately \$2,525,638 due to the completion of renovations on the administration facility and a reduction in vehicle purchases. As a result of these variances, net position decreased by \$2,378,159. In a condensed format, the table shows a comparison of the revenues and expenses for 2012 and 2011.

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

	2012	2011
Operating Revenue (Expenses)		
Operating Revenues	\$ 2,787,175	\$ 2,720,696
Operating Expenses	(16,098,241)	(16,056,403)
Operating Loss	(13,311,066)	(13,335,707)
Nonoperating Revenues		
Tax levy	845,928	947,004
Federal Grants and Reimbursements	199,371	2,250,550
State Grants and Reimbursements	4,125,174	4,410,162
Local Grants and Reimbursements	3,588,691	3,304,787
Investment Income	18,925	14,649
Gain/loss on Sale of Capital Assets	13,091	36,220
Total Nonoperating Revenues	8,791,180	10,963,372
Capital Grant Revenue	2,141,727	4,667,365
Change in Net Position	(2,378,159)	2,295,030
Restated net position - Beginning of Year	27,994,251	25,780,166
Net position - End of Year	\$ 25,616,092	\$ 28,075,196

City of Kalamazoo, Michigan  
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2012

**Economic Factors**

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

The Metro Transit ridership increased substantially in 2012 with a total of 3,036,402 trips across all modes. That's an increase of 258,402 trips (+9.3%) over 2011. Ridership is expected to increase in 2013 as well. In 2013, the cost of diesel fuel is expected to increase, offset by lower salary and wages due to the impacts of the City's Early Retirement Initiative. The operating budget will continue to be monitored monthly to keep expenses as low as possible.

The System receives significant operating assistance each year for 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, 2012. For the period ending September 30, 2012, the System anticipates State operating assistance to fund 30.6498% of eligible urban expenses and 36.2350% of eligible nonurban expenses. For the quarter ending December 31, 2012, the System anticipates State operating assistance to fund 27.1136% of eligible urban expenses and 38.4886% of eligible nonurban expenses.

For the fiscal year ended September 30, 2012 the System transitioned from a medium urban to large urban transit system due to census data. The System will now only apply a portion of its demand response operations as eligible nonurban operating assistance. The portion of demand response operations that will be eligible for nonurban operating assistance is based on vehicle mileage.

Additional schedules related to this program are provided in the other supplementary information included in this report.

The System is partially funded through a property tax levy on the property owners of the City of Kalamazoo. The System levied .60000 mills in July 2012. The system has budgeted the same levy in 2013.

**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, 2012

ASSETS

Current assets

Cash and cash equivalents	\$ 2,413,740
Investments	3,996,869
Accounts receivable	105,632
Taxes receivable	83,593
Interest receivable	3,984
Due from other governmental units	1,881,871
Inventories	373,677
Prepays	<u>625</u>

Total current assets 8,859,991

Noncurrent assets

Capital assets not being depreciated	4,048,692
Capital assets, net of accumulated depreciation	<u>19,796,545</u>

Total noncurrent assets 23,845,237

TOTAL ASSETS 32,705,228

LIABILITIES

Current liabilities

Accounts payable	543,739
Due to other governmental units	675,150
Unearned revenue	1,945,894
Current portion of other post-employment benefits obligation	3,313,915
Current portion of compensated absences	<u>67,064</u>

Total current liabilities 6,545,762

Noncurrent liabilities

Noncurrent portion of other post-employment benefits obligation	408,594
Noncurrent portion of compensated absences	<u>134,780</u>

Total noncurrent liabilities 543,374

TOTAL LIABILITIES 7,089,136

NET POSITION

Net investment in capital assets	23,845,237
Unrestricted	<u>1,770,855</u>

TOTAL NET POSITION \$ 25,616,092

City of Kalamazoo, Michigan  
Metro Transit System

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2012

OPERATING REVENUES	
Passenger fares	\$ 2,457,539
Charter service	998
Other operating revenue	<u>328,638</u>
TOTAL OPERATING REVENUES	2,787,175
OPERATING EXPENSES	
Operations	9,338,747
Maintenance	1,926,097
General administration	<u>4,833,397</u>
TOTAL OPERATING EXPENSES	<u>16,098,241</u>
OPERATING LOSS	(13,311,066)
NONOPERATING REVENUES	
Tax levy	845,928
Intergovernmental	
Federal sources	199,371
State sources	4,125,174
Local sources	3,588,691
Investment income	18,925
Gain/loss on sale of capital assets	<u>13,091</u>
TOTAL NONOPERATING REVENUES	<u>8,791,180</u>
NET LOSS BEFORE CAPITAL GRANT REVENUE	(4,519,886)
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	1,987,134
State sources	<u>154,593</u>
TOTAL CAPITAL GRANT REVENUE	<u>2,141,727</u>
CHANGE IN NET POSITION	(2,378,159)
Restated net position, beginning of year	<u>27,994,251</u>
Net position, end of year	<u><u>\$ 25,616,092</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan  
Metro Transit System

STATEMENT OF CASH FLOWS

Year Ended December 31, 2012

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,458,537
Other operating cash receipts	245,735
Cash paid to suppliers	(9,852,821)
Cash paid for employee benefits	(3,180,013)
Cash paid to employees	<u>(3,774,569)</u>
NET CASH USED BY OPERATING ACTIVITIES	(14,103,131)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes	878,795
Intergovernmental sources	<u>9,821,176</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	10,699,971
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(2,059,278)
Capital contributions	4,006,288
Proceeds from sale of equipment	<u>13,091</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	1,960,101
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(3,996,869)
Maturity of investments	3,000,350
Interest received	<u>17,283</u>
NET CASH USED BY INVESTING ACTIVITIES	<u>(979,236)</u>
NET DECREASE IN CASH AND CASH EQUIVALENTS	(2,422,295)
Cash and cash equivalents, beginning of year	<u>4,836,035</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,413,740</u></u>
Reconciliation of operating loss to net cash used by operating activities	
Operating loss	\$ (13,311,066)
Adjustments to reconcile operating loss to net cash used by operating activities	
Depreciation	1,998,931
(Increase) decrease in:	
Accounts receivable	(82,903)
Prepays	2,125
Inventories	(35,295)
Increase (decrease) in:	
Accounts payable	(2,985,988)
Other post-employment benefits obligation	405,594
Compensated absences	<u>(94,529)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (14,103,131)</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**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, liabilities, 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, liabilities, and deferred inflows 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 total 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, 2012

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

4. Basis of Accounting - continued

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the enterprise funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the System's policy to use restricted resources first, then unrestricted resources as they are needed.

5. Cash, Cash Equivalents, and Investments

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

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

6. 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.

7. Prepays

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

8. Capital Assets and Depreciation

Capital assets are those with an individual cost of more than \$5,000 and an estimated useful life in excess of two years. Property and equipment are recorded at cost or, if donated, at their estimated fair value on the date donated. Depreciation on such capital assets is recorded on a straight-line basis over the estimated useful lives of the assets as defined in the R&E (Revenue and Expense) Manual and/or as approved by BPT (Bureau of Public 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	7 - 10 years
Office equipment	6 - 10 years
Machinery and equipment	3 - 10 years

The eligible depreciation for the year ended September 30, 2012, of \$34,296 (\$1,967,990 total depreciation reported in Operating Assistance Report (OAR) code 51300 for both Urban and Nonurban less ineligible depreciation of \$1,933,694 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 BPT.

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

9. Deferred Outflows/Inflows of Resources

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

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

Currently the System does not report any deferred outflows of resources or deferred inflows of resources.

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. Cost Allocations

The City of Kalamazoo Metro Transit System has four (4) cost allocation plans where the methodology has been approved by the BPT. 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).

13. 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.

14. Explanation of Ineligible Expenses per the BPT R&E Manual

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.

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS**

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

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

Deposits

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

	Carrying Amount	Bank Balance
Checking account	\$ 2,413,040	\$ 2,289,046

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.

Investments

As of December 31, 2012, the carrying amounts and market values for the investments were as follows:

<u>Investment Type</u>	Carrying Amount	Weighted Average Maturity	S&P Rating	%
Insured or registered for which the securities are held by the System's agent in the System's name				
Federal Home Loan Mortgage Corporation	\$ 3,000,000	665.25 days	AA+	75.06%
Toyota Motor Credit Corporation	996,869	63 days	A-1+	24.94%
	\$ 3,996,869			100.00%

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

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

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System's banking and investment policy does not specifically address this risk, although the System believes that due to the dollar amounts of cash deposits and the limits of FDIC 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. As of December 31, 2012, the System's checking account was fully insured by the FDIC.

Custodial Credit Risk - Investments

Custodial credit risk, which is the risk that, in the event of the failure of the counterparty, the System will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The System's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of December 31, 2012, none of the System's investments were exposed to risk since the securities are held in the System's name by the counterparty.

Interest Rate Risk

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

Credit Risk

At December 31, 2012, all of the System's investments in securities of U.S. agencies were rated AA+ and the System's investments in Toyota Motor Credit Corporation were rated A-1+ by Standard & Poor's. All of the System's investments comply with its policy regarding the types of investments it may hold.

Concentration of Credit Risk

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

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

Cash and cash equivalents	\$ 2,413,740
Investments	<u>3,996,869</u>
Total	<u>\$ 6,410,609</u>

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS**

Due from other governmental units at December 31, 2012, by grant type and grant award year are as follows:

Federal Section 5309 Capital - FY 2005	\$	13,910
Federal Section 5309 Capital - FY 2006		421,448
Federal Section 5309 Capital - FY 2009		110,634
Federal Section 5307 Capital - FY 2008		162,547
Federal Section 5307 Capital - FY 2009		36,242
Federal Section 5307 Capital - FY 2010		550,126
Federal Section 5307 Capital - FY 2011		229,196
Federal Section 5311 Operating - FY 2013		6,172
Federal Section 5317 Operating - FY 2012		68,898
Federal Section 5317 Operating - FY 2013		15,514
State Operating Assistance - FY 2012		56,643
State Operating Assistance - FY 2013		116,409
Specialized Services - FY 2012		16,734
Specialized Services - FY 2013		7,500
City of Kalamazoo		69,898
Total	\$	1,881,871

**NOTE D: CAPITAL ASSETS**

Capital asset activity for the year ended December 31, 2012, was as follows:

	Balance <u>Jan. 1, 2012</u>	Additions/ <u>Reclassification</u>	Deletions/ <u>Reclassification</u>	Balance <u>Dec. 31, 2012</u>
Capital assets not being depreciated				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	<u>2,262,472</u>	<u>1,855,673</u>	<u>(2,082,084)</u>	<u>2,036,061</u>
Subtotal	4,275,103	1,855,673	(2,082,084)	4,048,692
Capital assets being depreciated				
Building and improvements	16,068,591	2,082,084	-	18,150,675
Land improvements	399,835	-	-	399,835
Machinery and equipment	2,368,484	18,924	-	2,387,408
Vehicles	15,022,401	151,561	(828,593)	14,345,369
Intangible assets	<u>29,900</u>	<u>33,120</u>	<u>-</u>	<u>63,020</u>
Subtotal	33,889,211	2,285,689	(828,593)	35,346,307
Less accumulated depreciation for:				
Building and improvements	(5,064,592)	(617,497)	-	(5,682,089)
Land improvements	(319,923)	(10,895)	-	(330,818)
Machinery and equipment	(1,672,657)	(198,513)	-	(1,871,170)
Vehicles	(7,320,757)	(1,163,516)	828,593	(7,655,680)
Intangible assets	<u>(1,495)</u>	<u>(8,510)</u>	<u>-</u>	<u>(10,005)</u>
Subtotal	<u>(14,379,424)</u>	<u>(1,998,931)</u>	<u>828,593</u>	<u>(15,549,762)</u>
Net capital assets being depreciated	<u>19,509,787</u>	<u>286,758</u>	<u>-0-</u>	<u>19,796,545</u>
Capital assets, net	<u>\$ 23,784,890</u>	<u>\$ 2,142,431</u>	<u>\$ (2,082,084)</u>	<u>\$ 23,845,237</u>

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE D: CAPITAL ASSETS - CONTINUED**

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 \$828,593 and accumulated depreciation of \$828,593. Depreciation expense in the amount of \$1,998,931 was reported for year ended December 31, 2012.

**NOTE E: COMPENSATED ABSENCES**

Compensated absences activity for the year ended December 31, 2012, was as follows:

	<u>Balance</u> <u>Jan. 1, 2012</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance</u> <u>Dec. 31, 2012</u>
Compensated absences	\$ 296,373	\$ 516,437	\$ 610,966	\$ 201,844

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 \$201,844 for vacation and sick at December 31, 2012. The amounts of \$67,064 and \$134,780 have been reported as current and noncurrent liabilities, respectively.

**NOTE F: DEFINED BENEFIT PENSION PLAN**

The System contributes to the City of Kalamazoo Employees' Retirement System, which is the administrator of a single-employer public employees' retirement system that covers all employees of the City. The City of Kalamazoo Employees' Retirement System report has been issued under a separate cover.

**NOTE G: RISK MANAGEMENT**

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

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

The System pays an annual premium to the Pool for this coverage. The agreement for the formation of the Pool provides that the Pool will be self-sustaining through member premiums. Annually, the System receives notification from the Pool of retrospective claims adjustments based on the actual claims experience of the Authority and other members of the Pool. These retrospective claims adjustments, determined by the Pool, are accrued annually by the System upon notification.

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE G: 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 H: CONTINGENT LIABILITIES**

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

**NOTE I: OTHER POST-EMPLOYMENT BENEFITS**

The System participates in the City of Kalamazoo Postretirement Welfare Benefits Plan (the "Plan") which is a single-employer defined other post-employment benefit plan administered by the City of Kalamazoo. The City provides medical and dental insurance benefits to 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. Additional information for the Plan can be found in the notes that accompany the City's Annual Financial Report.

**NOTE J: PROPERTY TAX REVENUES**

The System's property tax is levied in July on the State Equalized Valuation of property located in the City of Kalamazoo as of the preceding July. Real and personal property in the City for the current levy was assessed and equalized at approximately \$1.489 billion representing 50% of estimated current market value. For the year ended December 31, 2012, the System levied 0.6000 mills.

**NOTE K: COMPLIANCE REQUIREMENTS**

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

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

City of Kalamazoo, Michigan  
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2012

**NOTE L: RESTATEMENT OF BEGINNING NET POSITION**

The beginning net position of the Transit was decreased by \$80,945 to reflect a recalculation by the State of Michigan of the Transit's operating assistance calculation.

**NOTE M: CHANGE IN ACCOUNTING PRINCIPLE**

GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, was implemented in the current year. The statement incorporates deferred outflows of resources and deferred inflows of resources, as defined by GASB Concepts Statement No. 4, into the definitions of the required components of the residual measure of net position, formerly net assets. This statement also provides a new statement of net position format to report all assets, deferred outflows of resources, liabilities, deferred inflows of resources, and net position. Currently the System does not report any deferred outflows of resources or deferred inflows of resources.

**NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS**

In March 2012, the GASB issued Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The Statement will be effective for the System's fiscal year ending December 31, 2013. The Statement establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. The System is currently evaluating the impact this standard will have on the financial statements when adopted.

## **OTHER SUPPLEMENTARY INFORMATION**

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended December 31, 2012

	<u>1/1/2012 to 9/30/2012</u>	<u>10/1/2012 to 12/31/2012</u>	<u>Total</u>
Passenger fares	\$ 1,827,272	\$ 630,267	\$ 2,457,539
Charter service	998	-	998
Other operating revenue	229,715	98,923	328,638
Tax levy	875,833	(29,905)	845,928
Local operating assistance	2,800,201	788,490	3,588,691
Investment income	5,930	12,995	18,925
Gain/loss on sale of capital assets	4,700	8,391	13,091
	<u>5,744,649</u>	<u>1,509,161</u>	<u>7,253,810</u>
TOTAL LOCAL REVENUES	<u>\$ 5,744,649</u>	<u>\$ 1,509,161</u>	<u>\$ 7,253,810</u>

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2012

	Restated 10/1/2011 to 12/31/2011	1/1/2012 to 9/30/2012	Total
Passenger fares	\$ 568,432	\$ 1,827,272	\$ 2,395,704
Charter service	360	998	1,358
Other operating revenue	78,207	229,715	307,922
Tax levy	(2,459)	875,833	873,374
Local operating assistance	607,846	2,800,201	3,408,047
Investment income	10,481	5,930	16,411
Gain/loss on sale of capital assets	(140)	4,700	4,560
<b>TOTAL LOCAL REVENUES</b>	<b>\$ 1,262,727</b>	<b>\$ 5,744,649</b>	<b>\$ 7,007,376</b>

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended December 31, 2012

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Restated Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
<b>U.S. DEPARTMENT OF TRANSPORTATION</b>								
Direct programs:								
Federal Transit - Capital Investment Grants	20.500							
Capital Grant - Section 5309 (80/20)		MI-04-0014/2002-0055/Z23	\$ 4,290,650	\$ 5,990	\$ 4,792	\$ 1,198	\$ 4,284,586	\$ 74
Capital Grant - Section 5309 (80/20)		MI-04-0027/2007-0239/Z11	4,370,000	229,180	183,344	45,836	915,052	3,225,768
Capital Grant - Section 5309 (80/20)		MI-04-0047/2007-0239/Z14	2,937,500	19,635	15,708	3,927	756,978	2,160,887
Capital Grant - Section 5309 (80/20)		MI-03-0240/2007-0239/Z25	91,019	-0-	-	-	-	91,019
Federal Transit - Formula Grants	20.507							
Capital Grant - Section 5307(80/20)		MI-90-X562	374,874	209,667	167,734	41,933	159,698	5,509
Capital Grant - Section 5307(80/20)		MI-95-X047/2007-0239/Z15	217,949	36,242	28,994	7,248	91,000	90,707
Capital Grant - Section 5307(80/20)		MI-90-X634/2001-0239/Z24	400,000	147,859	118,287	29,572	249,551	2,590
ARRA - Capital Grant - Section 5307		MI-96-X015	3,155,510	1,379,756	1,379,756	-	975,486	800,268
Capital Grant - Section 5307(80/20)		MI-95-X054/2007-0239/Z20	130,968	-0-	-	-	-	130,968
Capital Grant - Section 5307(80/20)		MI-95-X619/2007-0239/Z17	35,750	1,922	1,538	384	-	33,828
Capital Grant - Section 5307(80/20)		MI-95-X073/2007-0239/Z23	167,266	108,726	86,981	21,745	-	58,540
Capital Grant - Section 5307(80/20)		MI-95-X080/2012-0112/P4	238,519	-0-	-	-	-	238,519
Passed through Michigan Department of Transportation								
Formula Grants for Other than Urbanized Areas	20.509							
Operating Assistance - Section 5311 (FY 13)		MI-18-X055/2012-0112/P7	434,829	6,172	6,172	-	-	428,657
Operating Assistance - Section 5311 (FY 12)		MI-18-X050/2012-0112/P3	486,826	125,670	125,670	-	55,780	305,376
New Freedom Program - Section 5317	20.521							
Mobility Manager (80/20)		MI-57-X010-02/2012-0112/P1	125,000	68,898	55,118	13,780	-	56,102
Capital (80/20)		MI-57-X010-02/2012-0112/P1	31,250	-0-	-	-	-	31,250
Mobility Manager (80/20)		MI-57-X010-03/2012-0112/P5	100,000	15,514	12,411	3,103	-	84,486
Capital (80/20)		MI-57-X010-03/2012-0112/P5	25,000	-0-	-	-	-	25,000
<b>MICHIGAN DEPARTMENT OF TRANSPORTATION</b>								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY13)		N/A	4,830,825	1,030,663	-	1,030,663	1,298,867	2,501,295
Operating Assistance (FY12)		N/A	4,890,774	3,012,276	-	3,012,276	1,337,018	541,480
Capital Grant	N/A	MDOT/Z16	N/A	2,750	-	2,750	-	-0-
Ridesharing Fellowship								
2011-2012	N/A	N/A	40,600	27,067	-	27,067	13,533	-0-
2012-2013	N/A	N/A	115,582	-0-	-	-	-	115,582
Specialized Services								
2011-2012	N/A	12-0112/P2	50,000	30,785	-	30,785	-	19,215
2012-2013	N/A	N/A	30,000	7,500	-	7,500	-	22,500
<b>TOTALS</b>			<b>\$ 27,570,691</b>	<b>\$ 6,466,272</b>	<b>\$ 2,186,505</b>	<b>\$ 4,279,767</b>	<b>\$ 10,137,549</b>	<b>\$ 10,969,620</b>

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS  
OPERATING REVENUE ONLY

Year Ended December 31, 2012

	1/1/2012 to 9/30/2012	10/1/2012 to 12/31/2012	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 3,012,276	\$ 1,030,663	\$ 4,042,939
U.S. Department of Transportation - Section 5317	13,780	3,103	16,883
Fellowship	27,067	-	27,067
Specialized Services	30,785	7,500	38,285
Total State Operating Grants	3,083,908	1,041,266	4,125,174
Federal Operating Grants			
U.S. Department of Transportation - Section 5311	125,670	6,172	131,842
U.S. Department of Transportation - Section 5317	55,118	12,411	67,529
Total Federal Operating Grants	180,788	18,583	199,371
TOTAL OPERATING GRANTS - STATE AND FEDERAL	\$ 3,264,696	\$ 1,059,849	\$ 4,324,545

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS  
OPERATING REVENUE ONLY

Year Ended September 30, 2012

	Restated 10/1/2011 to 12/31/2011	1/1/2012 to 9/30/2012	Total
<b>State of Michigan Operating Grants</b>			
Local Bus Operating Assistance (Act 51)	\$ 1,337,018	\$ 3,012,276	\$ 4,349,294
U.S. Department of Transportation - Section 5317	-	13,780	13,780
Fellowship	13,533	27,067	40,600
Specialized Services	14,904	30,785	45,689
<b>Total State Operating Grants</b>	<b>1,365,455</b>	<b>3,083,908</b>	<b>4,449,363</b>
<b>Federal Operating Grants</b>			
U.S. Department of Transportation - Section 5307	580,755	-	580,755
U.S. Department of Transportation - Section 5311	55,780	125,670	181,450
U.S. Department of Transportation - Section 5317	-	55,118	55,118
<b>Total Federal Operating Grants</b>	<b>636,535</b>	<b>180,788</b>	<b>817,323</b>
<b>TOTAL OPERATING GRANTS - STATE AND FEDERAL</b>	<b>\$ 2,001,990</b>	<b>\$ 3,264,696</b>	<b>\$ 5,266,686</b>

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended December 31, 2012

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Total</u>
Labor	\$ 3,574,447	\$ 200,122	\$ -	\$ 3,774,569
Fringe benefits	3,338,354	152,724	-	3,491,078
Services	1,124,652	67,556	-	1,192,208
Materials and supplies	2,071,217	102,125	-	2,173,342
Utilities	258,227	15,986	-	274,213
Insurance	351,640	21,999	-	373,639
Taxes and fees	1,068	40	-	1,108
Purchased services	2,566,163	171,065	38,285	2,775,513
Miscellaneous	40,806	2,834	-	43,640
Depreciation	1,886,811	112,120	-	1,998,931
	<u>\$ 15,213,385</u>	<u>\$ 846,571</u>	<u>\$ 38,285</u>	<u>\$ 16,098,241</u>
Total expenses	<u>\$ 15,213,385</u>	<u>\$ 846,571</u>	<u>\$ 38,285</u>	<u>\$ 16,098,241</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, 2012

	Urban			Nonurban		
	1/1/2012 to 9/30/2012	10/1/2012 to 12/31/2012	Total	1/1/2012 to 9/30/2012	10/1/2012 to 12/31/2012	Total
Labor	\$ 2,635,292	\$ 939,155	\$ 3,574,447	\$ 198,357	\$ 1,765	\$ 200,122
Fringe benefits	2,014,695	1,323,659	3,338,354	151,644	1,080	152,724
Services	812,357	312,295	1,124,652	61,145	6,411	67,556
Materials and supplies	1,347,829	723,388	2,071,217	101,450	675	102,125
Utilities	194,271	63,956	258,227	14,623	1,363	15,986
Insurance	289,275	62,365	351,640	21,773	226	21,999
Taxes and fees	518	550	1,068	40	-	40
Purchased services	1,902,418	663,745	2,566,163	143,193	27,872	171,065
Miscellaneous	37,429	3,377	40,806	2,817	17	2,834
Depreciation	1,394,255	492,556	1,886,811	104,944	7,176	112,120
<b>Total expenses</b>	<b>\$ 10,628,339</b>	<b>\$ 4,585,046</b>	<b>\$ 15,213,385</b>	<b>\$ 799,986</b>	<b>\$ 46,585</b>	<b>\$ 846,571</b>

City of Kalamazoo, Michigan  
Metro Transit System

SCHEDULE OF OPERATING EXPENSES BY PROGRAM

Year Ended September 30, 2012

	Urban			Nonurban		
	Restated 10/1/2011 to 12/31/2011	1/1/2012 to 9/30/2012	Total	Restated 10/1/2011 to 12/31/2011	1/1/2012 to 9/30/2012	Total
Labor	\$ 922,398	\$ 2,635,292	\$ 3,557,690	\$ 69,427	\$ 198,357	\$ 267,784
Fringe benefits	1,596,022	2,014,695	3,610,717	120,130	151,644	271,774
Services	283,375	812,357	1,095,732	21,330	61,145	82,475
Materials and supplies	575,389	1,347,829	1,923,218	43,311	101,450	144,761
Utilities	67,002	194,271	261,273	5,043	14,623	19,666
Insurance	60,963	289,275	350,238	4,588	21,773	26,361
Taxes and fees	181	518	699	14	40	54
Purchased services	623,449	1,902,418	2,525,867	46,926	143,193	190,119
Miscellaneous	3,479	37,429	40,908	262	2,817	3,079
Depreciation	435,976	1,394,255	1,830,231	32,815	104,944	137,759
<b>Total expenses</b>	<b>\$ 4,568,234</b>	<b>\$ 10,628,339</b>	<b>\$ 15,196,573</b>	<b>\$ 343,846</b>	<b>\$ 799,986</b>	<b>\$ 1,143,832</b>

City of Kalamazoo, Michigan  
Metro Transit System

OAR SCHEDULE 4R  
URBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2012

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 2,228,005
405	Charter service	
40500	Charter service	1,263
406	Auxiliary trans revenues	
40615	Advertising	69,087
40620	Intercity ticket sales	97,232
407	Nontrans revenues	
40720	Rental of buildings or other property	105,785
40725	Parking lot revenue	2,612
40760	Gain (loss) from sale of capital assets	4,241
40799	Other nontransportation revenue	11,651
408	Local revenue	
40800	Taxes levied directly for/by transit agency	812,238
409	Local revenue	
40910	Local operating assistance	3,169,483
411	State formula and contracts	
41101	State operating assistance	3,993,896
41114	Other capital contract reimbursement for operating expense	10,508
413	Federal contracts	
41302	Federal Section 5307 operating	580,755
41314	Other capital contract reimbursement for operating expense	136,362
41399	Other federal transit contracts and reimbursements	64,075
414	Other revenue	
41400	Interest income	<u>15,262</u>
	TOTAL URBAN SERVICE REVENUE	<u><u>\$ 11,302,455</u></u>

City of Kalamazoo, Michigan  
Metro Transit System

OAR SCHEDULE 4E  
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2012

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operators' salaries and wages	\$ 2,176,895	\$ -	\$ -	\$ 2,176,895
50102	Other salaries and wages	166,180	646,854	309,463	1,122,497
50103	Dispatchers' salaries and wages	258,298	-	-	258,298
502	Fringe benefits				
50200	Other fringe benefits	1,515,060	474,934	710,752	2,700,746
50202	Other post-employment benefits	-	-	909,971	909,971
503	Services				
50302	Advertising fees	-	-	34,605	34,605
50305	Audit cost	-	-	6,882	6,882
50399	Other services	279,596	73,358	701,291	1,054,245
504	Materials and supplies				
50401	Fuel and lubricants	1,077,305	3,850	959	1,082,114
50402	Tires and tubes	56,217	-	-	56,217
50499	Other materials and supplies	113,852	598,295	72,740	784,887
505	Utilities				
50500	Utilities	78,931	-	182,342	261,273
506	Insurance				
50603	Liability insurance	291,825	-	-	291,825
50699	Other insurance	-	-	58,413	58,413
507	Taxes and fees				
50700	Taxes and fees	555	144	-	699
508	Purchased trans service				
50800	Purchased trans service	2,525,867	-	-	2,525,867
509	Miscellaneous expenses				
50902	Travel, meetings, and training	-	292	6,781	7,073
50903	Association dues and subscriptions	-	-	32,464	32,464
50999	Other miscellaneous expenses	-	-	1,371	1,371
513	Depreciation				
51300	Depreciation	-	-	1,830,231	1,830,231
550	Ineligible expenses				
55004	Other ineligible state contracts	37,758	-	-	37,758
55007	Ineligible depreciation	-	-	1,798,336	1,798,336
55009	Ineligible percent of association dues	-	-	3,291	3,291
55015	Ineligible charter expense	928	-	335	1,263
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	-	-	69,087	69,087
56004	Ineligible expenses associated w/rentals	-	-	105,785	105,785
570	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	86,237	-	-	86,237
57099	Other ineligible Federal/State/Local	-	-	64,075	64,075
				Total expenses	15,196,573
				Total ineligible expenses	<u>2,165,832</u>
				Total eligible expenses	<u>\$ 13,030,741</u>

City of Kalamazoo, Michigan  
Metro Transit System

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

Year Ended September 30, 2012

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles <sup>(1)</sup>	2,116,921	255,115	-	2,372,036

<sup>(1)</sup> 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, 2012

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 167,699
405	Charter service	
40500	Charter service	95
406	Auxiliary trans revenues	
40615	Advertising	5,200
40620	Intercity ticket sales	7,319
407	Nontrans revenues	
40720	Rental of buildings or other property	7,962
40725	Parking lot revenue	197
40760	Gain from sale of capital assets	319
40799	Other nontransportation revenue	877
408	Local revenue	
40800	Taxes levied directly for/by transit agency	61,136
409	Local revenue	
40910	Local operating assistance	238,564
411	State formula and contracts	
41101	State operating assistance	355,398
41114	Other capital contract reimbursement for operating expenses	791
413	Federal contracts	
41301	Federal Section 5311	181,450
41314	Other capital contract reimbursement for operating expenses	10,264
41399	Other federal transit contracts and reimbursements	4,823
414	Other revenue	
41400	Interest income	1,149
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 1,043,243</u>

City of Kalamazoo, Michigan  
Metro Transit System

OAR SCHEDULE 4E  
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2012

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operators' salaries and wages	\$ 163,853	\$ -	\$ -	\$ 163,853
50102	Other salaries and wages	12,508	48,688	23,293	84,489
50103	Dispatchers' salaries and wages	19,442	-	-	19,442
502	Fringe benefits				
50200	Other fringe benefits	114,037	35,747	53,498	203,282
50202	Other post-employment benefits	-	-	68,492	68,492
503	Services				
50302	Advertising fees	-	-	2,605	2,605
50305	Audit cost	-	-	518	518
50399	Other services	21,045	5,522	52,785	79,352
504	Materials and supplies				
50401	Fuel and lubricants	81,088	290	73	81,451
50402	Tires and tubes	4,232	-	-	4,232
50499	Other materials and supplies	8,570	45,033	5,475	59,078
505	Utilities				
50500	Utilities	5,941	-	13,725	19,666
506	Insurance				
50603	Liability insurance	21,965	-	-	21,965
50699	Other insurance	-	-	4,396	4,396
507	Taxes and fees				
50700	Taxes and fees	43	11	-	54
508	Purchased trans service				
50800	Purchased trans service	190,119	-	-	190,119
509	Miscellaneous expenses				
50902	Travel, meetings, and training	-	22	510	532
50903	Association dues and subscriptions	-	-	2,444	2,444
50999	Other miscellaneous expenses	-	-	103	103
513	Depreciation				
51300	Depreciation	-	-	137,759	137,759
550	Ineligible expenses				
55004	Other ineligible state contracts	2,842	-	-	2,842
55007	Ineligible depreciation	-	-	135,358	135,358
55009	Ineligible percent of association dues	-	-	248	248
55015	Ineligible charter expense	70	-	25	95
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	-	-	5,200	5,200
56004	Ineligible expenses associated w/rentals	-	-	7,962	7,962
570	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	6,491	-	-	6,491
57099	Other ineligible Federal/State/Local	-	-	4,823	4,823
		<u>          </u>	<u>          </u>	<u>          </u>	<u>          </u>
			Total expenses		1,143,832
			Total ineligible expenses		<u>163,019</u>
			Total eligible expenses		<u>\$ 980,813</u>

City of Kalamazoo, Michigan  
Metro Transit System

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

Year Ended September 30, 2012

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles <sup>(1)</sup>	159,338	19,202	-	178,540

<sup>(1)</sup> 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, 2012

	Urban	Nonurban
Total expenses	\$ 15,196,573	\$ 1,143,832
Less ineligible expenses		
Other ineligible State contracts	37,758	2,842
Ineligible depreciation	1,798,336	135,358
Ineligible percent of association dues	3,291	248
Ineligible charter expense	1,263	95
Ineligible expenses associated w/advertising	69,087	5,200
Ineligible expenses associated w/rentals	105,785	7,962
Other ineligible operating expenses paid by capital contract	86,237	6,491
Other ineligible Federal/State/Local	64,075	4,823
Total ineligible expenses per R&E manual	2,165,832	163,019
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 13,030,741	\$ 980,813
Eligible expenses for State reimbursement	\$ 13,030,741	\$ 980,813
x Reimbursement percentage	30.6498%	36.2350%
State operating assistance	\$ 3,993,896	\$ 355,398
Eligible expenses for Federal reimbursement		\$ 980,813
x Reimbursement percentage	N/A	18.50%
Federal section 5311 operating assistance	\$ 580,755	\$ 181,450

Principals

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INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS  
PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

To the 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, 2012, 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 27, 2013.

**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 opinions 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 instance 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 27, 2013