

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

FINANCIAL STATEMENTS

December 31, 2013

City of Kalamazoo, Michigan
Metro Transit System

TABLE OF CONTENTS

December 31, 2013

	<u>Page</u>
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-vii
BASIC FINANCIAL STATEMENTS	
Statement of Net Position	1
Statement of Revenues, Expenses, and Changes in Net Position	2
Statement of Cash Flows	3
Notes to Financial Statements	4-13
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Local Revenues	14
Schedule of Local Revenues (Year Ended September 30, 2013)	15
Schedule of Expenditures of Federal and State Awards	16-17
Schedule of Federal and State Awards - Operating Revenue Only	18
Schedule of Federal and State Awards - Operating Revenue Only (Year Ended September 30, 2013)	19
Schedule of Operating and Contract Expenses (Based on a December 31 Year End)	20
Schedule of Operating Expenses Split Between a December 31 and September 30 Year End	21
Schedule of Operating Expenses by Program	22
Urban Regular Service Revenue Report (OAR Schedule 4R)	23
Urban Regular Service Expense Report (OAR Schedule 4E)	24
Urban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	25
Nonurban Regular Service Revenue Report (OAR Schedule 4R)	26
Nonurban Regular Service Expense Report (OAR Schedule 4E)	27
Nonurban Regular Service Nonfinancial Report (OAR Schedule 4N) (Unaudited)	28
Operating Assistance Calculation	29
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>	30-31

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, 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, 2013, 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, 2013, 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. 65, *Items Previously Reported as Assets and Liabilities*, during the year. As a result of this implementation, the format and reporting in the financial statements has been changed to reflect the new presentation as required. 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.

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. 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" has 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 24, 2014, 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 24, 2014

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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, 2013 and 2012. The intent of the management's discussion and analysis is to provide highlights of the System's financial activities. Readers are encouraged to read this section in conjunction with the basic financial statements.

Using this Audit Report

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

Basic Financial Statements and Presentation

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

The Statement of Net Position presents information on all of the System's assets and liabilities, with the difference between the two reported as net position. Note, the System does not report deferred outflows of resources or deferred inflows of resources at December 31, 2013, or 2012. If the System had recorded deferred outflows of resources or deferred inflows of resources, these would be reflected in the Statement of Net Position as well. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Net positions increase when revenues exceed expenses. Improved financial position is indicated by increases in assets and deferred outflows of resources without corresponding increases to liabilities and deferred inflows of resources.

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

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

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

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

FINANCIAL ANALYSIS - COMPARATIVE

The Metro Transit System's total net position increased approximately 12% from a year ago - increasing from \$25,683,268 to \$28,695,621. In a condensed format, the table below shows a comparison of the net position as of December 31, 2013, to the prior year December 31, 2012.

CONDENSED SUMMARY OF NET POSITION

	2013	2012
Current and Other Assets	\$ 8,544,742	\$ 8,859,991
Capital Assets, net	24,594,716	23,912,413
Total Assets	33,139,458	32,772,404
Current Liabilities	4,136,998	6,545,762
Noncurrent Liabilities	306,839	543,374
Total Liabilities	4,443,837	7,089,136
Net Position		
Investment in capital assets	24,594,716	23,845,237
Unrestricted	4,100,905	1,838,031
Total Net Position	\$ 28,695,621	\$ 25,683,268

Current Assets

The 4% decrease in current and other assets is due to a decrease in due from other governmental units.

Due from other governmental units

This amount represents amounts due from the State of Michigan or Federal government for capital and operating grants. Also included in this amount are amounts due from the City of Kalamazoo for various purposes. The 36% decrease is due to the collection of outstanding amounts due at December 31, 2012. In addition, increased grant activity for the completion of the Intelligent Transportation System and bus purchases occurred early in the year, allowing for collection of funding prior to the year end.

Capital Assets, Net of Depreciation

As of December 31, 2013, the System had capital assets with a historical cost of approximately \$40,963,108. This is an increase of \$1,568,109 from 2012. The System completed implementing the Intelligent Transportation System 2013, transferring \$2,836,329 from construction in progress to intangible assets. In addition, the system added three (3) hybrid buses and one (1) extended van 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, 2013

Current Liabilities

The 36% decrease in current liabilities is due primarily to a decrease in the current portion of other post-employment benefits offset by various increases in other current liabilities.

Current portion of other post-employment benefits obligation

The other post-employment benefits (OPEB) obligation represents the cumulative difference between the System's required contribution and actual funding for medical, dental, and death benefits of current and future retirees of the system. The current portion of the other post-employment benefits obligation represents the amounts expected to be paid within one year. The \$3,313,915 decrease is due to the System contributing \$3,906,371 to the City of Kalamazoo OPEB Trust in 2013.

Noncurrent Liabilities

The 43% decrease in current liabilities is due primarily to a decrease in the noncurrent portion of other post-employment benefits.

Noncurrent portion of other post-employment benefits obligation

The noncurrent portion of the other post-employment benefits obligation represents the amounts expected to be paid beyond one year. The \$253,451 decrease is due to the System contributing to the City of Kalamazoo OPEB Trust in 2013.

Net Position

At December 31, 2013, 86% of the System's net position reflects investment in capital assets consisting of buses, operating facilities, and equipment used to operate and maintain the System. The 12% increase in net position is due to increased investments in capital assets and favorable operations due primarily to funding provided from Federal and State sources.

The System's beginning net position was increased by \$67,176 due to a correction of an accounting error in the prior year.

The Metro Transit System Activities

The Metro Transit System's operating revenues decreased approximately \$80,819. This was primarily due to a decrease in fare-paying passengers. Operating expenses decreased approximately \$56,765, primarily due to decreases in wages. Federal grants and reimbursements increased by \$3,816,764 due primarily to award of U.S. Department of Transportation Section 5307 operating grants. Of the \$3,960,000 drawn in the year ended December 31, 2013, \$1,980,000 was for operating grants for fiscal year 2012 for which final approval of the award was not received until 2013. The remaining \$1,980,000 was awarded for fiscal year 2013 operations. Capital grant funding increased by approximately \$957,518 due to the completion of the Intelligent Transportation System implementation and the purchase of three (3) hybrid buses. As a result of these variances, net position increased by \$3,012,353. In a condensed format, the table shows a comparison of the revenues and expenses for 2013 and 2012.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

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

	2013	2012
Operating Revenue (Expenses)		
Operating Revenues	\$ 2,706,356	\$ 2,787,175
Operating Expenses	(15,974,300)	(16,031,065)
Operating Loss	(13,267,944)	(13,243,890)
Nonoperating Revenues		
Tax levy	858,942	845,928
Federal Grants and Reimbursements	4,016,135	199,371
State Grants and Reimbursements	4,631,736	4,125,174
Local Grants and Reimbursements	3,661,334	3,588,691
Investment Income	10,465	18,925
Gain/loss on Sale of Capital Assets	2,440	13,091
Total Nonoperating Revenues	13,181,052	8,791,180
Capital Grant Revenue	3,099,245	2,141,727
Change in Net Position	3,012,353	(2,310,983)
Restated net position - Beginning of Year	25,683,268	27,994,251
Net position - End of Year	\$ 28,695,621	\$ 25,683,268

Economic Factors

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

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

Metro Transit ridership increased in 2013 by 2.6%, with 3,117,670 passenger trips across all modes. Ridership is expected to increase by 2.9% in 2014. The Intelligent Transportation System implementation was substantially completed in 2013 in order to improve customer service and passenger information. Phase two, the end user training and support phase, is scheduled to begin in 2014. Metro Transit had an operating loss for 2013, and will continue to monitor the budget on a monthly basis in 2014 to assist in controlling expenses.

The System receives significant operating assistance each year from the State of Michigan Comprehensive Transportation Fund. The sources of these funds include a portion of state gasoline taxes, vehicle related sales taxes, license fees and other taxes and fees. These funds are subject to legislative appropriation each year and the percentage of eligible expenses funded is subject to change during the year and subject to reconciliation and audit after the year has concluded. Because the State's program year ends on September 30, the percentage of eligible expenses covered by operating assistance is subject to change for the last quarter of the Metro Transit System's fiscal year ending December 31, 2013. For the period ending September 30, 2013, the System anticipates State operating assistance to fund 30.6498% of eligible urban expenses and 38.4886% of eligible nonurban expenses. For the quarter ending December 31, 2013, the System anticipates State operating assistance to fund 30.8598% of eligible urban expenses and 36.2643% of eligible nonurban expenses.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2013

For the fiscal year ended September 30, 2013 the System transitioned from a medium urban to large urban transit system due to changes from the 2010 census data. The System now only applies a portion of its demand response operations as eligible nonurban operating assistance based on vehicle miles.

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

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, 2013

ASSETS

Current assets

Cash and cash equivalents	\$ 3,366,267
Investments	2,998,299
Accounts receivable	34,943
Taxes receivable	77,560
Interest receivable	2,339
Due from other governmental units	1,188,744
Inventories	373,063
Prepays	<u>369,175</u>

Total current assets 8,410,390

Noncurrent assets

Net pension asset	134,352
Capital assets not being depreciated	2,025,365
Capital assets, net of accumulated depreciation	<u>22,569,351</u>

Total noncurrent assets 24,729,068

TOTAL ASSETS 33,139,458

LIABILITIES

Current liabilities

Accounts payable	754,795
Due to other governmental units	641,609
Unearned revenue	2,718,924
Current portion of compensated absences	<u>21,670</u>

Total current liabilities 4,136,998

Noncurrent liabilities

Net other post-employment benefits obligation	155,143
Noncurrent portion of compensated absences	<u>151,696</u>

Total noncurrent liabilities 306,839

TOTAL LIABILITIES 4,443,837

NET POSITION

Net investment in capital assets	24,594,716
Unrestricted	<u>4,100,905</u>

TOTAL NET POSITION \$ 28,695,621

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Year Ended December 31, 2013

OPERATING REVENUES	
Passenger fares	\$ 2,448,153
Charter service	1,092
Special transit	1,744
Other operating revenue	<u>255,367</u>
TOTAL OPERATING REVENUES	2,706,356
OPERATING EXPENSES	
Operations	9,353,893
Maintenance	2,038,076
General administration	<u>4,582,331</u>
TOTAL OPERATING EXPENSES	<u>15,974,300</u>
OPERATING LOSS	(13,267,944)
NONOPERATING REVENUES	
Tax levy	858,942
Intergovernmental	
Federal sources	4,016,135
State sources	4,631,736
Local sources	3,661,334
Investment income	10,465
Gain/loss on sale of capital assets	<u>2,440</u>
TOTAL NONOPERATING REVENUES	<u>13,181,052</u>
NET LOSS BEFORE CAPITAL GRANT REVENUE	(86,892)
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	2,639,450
State sources	<u>459,795</u>
TOTAL CAPITAL GRANT REVENUE	<u>3,099,245</u>
CHANGE IN NET POSITION	3,012,353
Restated net position, beginning of year	<u>25,683,268</u>
Net position, end of year	<u><u>\$ 28,695,621</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF CASH FLOWS

Year Ended December 31, 2013

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 2,450,989
Other operating cash receipts	326,056
Cash paid to suppliers	(7,041,092)
Cash paid for employee benefits	(6,920,645)
Cash paid to employees	<u>(3,816,318)</u>
NET CASH USED BY OPERATING ACTIVITIES	(15,001,010)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Taxes	864,975
Intergovernmental sources	<u>13,098,614</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	13,963,589
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(2,765,624)
Capital contributions	3,742,452
Proceeds from sale of equipment	<u>2,440</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	979,268
CASH FLOWS FROM INVESTING ACTIVITIES	
Purchase of investments	(2,998,299)
Maturity of investments	3,996,869
Interest received	<u>12,110</u>
NET CASH PROVIDED BY INVESTING ACTIVITIES	<u>1,010,680</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	952,527
Cash and cash equivalents, beginning of year	<u>2,413,740</u>
Cash and cash equivalents, end of year	<u><u>\$ 3,366,267</u></u>
Reconciliation of operating (loss) to net cash used by operating activities	
Operating (loss)	\$ (13,267,944)
Adjustments to reconcile operating (loss) to net cash used by operating activities	
Depreciation	2,016,145
(Increase) decrease in:	
Accounts receivable	70,689
Prepays	(368,550)
Inventories	614
Net pension asset	(67,176)
Increase (decrease) in:	
Accounts payable	211,056
Net other post-employment benefits obligation	(3,567,366)
Compensated absences	<u>(28,478)</u>
NET CASH USED BY OPERATING ACTIVITIES	<u><u>\$ (15,001,010)</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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, 2013

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. Receivables/Due From Other Governmental Units

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

7. Inventories

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

8. Prepays

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

9. Capital Assets and Depreciation

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

Land improvements	5 - 50 years
Building and building improvements	50 years
Vehicles	7 - 10 years
Office equipment	6 - 10 years
Machinery and equipment	3 - 10 years

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

9. Capital Assets and Depreciation - Continued

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

The eligible depreciation for the year ended September 30, 2013, of \$27,684 (\$2,011,842 total depreciation reported in Operating Assistance Report (OAR) code 51300 for both Urban and Nonurban less ineligible depreciation of \$1,984,158 reported in OAR code 55007 Ineligible Depreciation) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by OPT.

10. Compensated Absences

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

11. Unearned Revenue

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

12. Deferred Outflows/Inflows of Resources

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

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

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

13. Cost Allocations

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

14. Comparative Data

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

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

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

NOTE B: CASH, CASH EQUIVALENTS, AND INVESTMENTS

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

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

Deposits

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

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Checking account	<u>\$ 3,365,567</u>	<u>\$ 3,287,316</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, 2013

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

Investments

As of December 31, 2013, the carrying amounts and market values for the investments were as follows:

<u>Investment Type</u>	<u>Carrying Amount</u>	<u>Weighted Average Maturity</u>	<u>S&P Rating</u>	<u>%</u>
Insured or registered for which the securities are held by the System's agent in the System's name				
Federal Home Loan Mortgage Corporation	\$ 1,999,899	440.10 days	AA+	66.70%
Natixis US Finance	<u>998,400</u>	76.00 days	A-1	<u>33.30%</u>
	<u>\$ 2,998,299</u>			<u>100.00%</u>

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the System's deposits may not be returned to it. The System's banking and investment policy does not specifically address this risk, although the System believes that due to the dollar amounts of cash deposits and the limits of 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.

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, 2013, 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, 2013, all of the System's investments in securities of U.S. agencies were rated AA+ and the System's investments in Natixis US Finance 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.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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

Concentration of Credit Risk

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

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

Cash and cash equivalents	\$ 3,366,267
Investments	<u>2,998,299</u>
Total	<u>\$ 6,364,566</u>

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at December 31, 2013, 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 5307 Capital - FY 2011	109,422
Federal Section 5307 Capital - FY 2012	336,116
Federal Section 5311 Operating - FY 2014	5,978
Federal Section 5317 Operating - FY 2013	15,514
State Operating Assistance - FY 2012	189,654
State Operating Assistance - FY 2013	78,600
Specialized Services - FY 2012	6,100
Specialized Services - FY 2013	7,500
City of Kalamazoo	<u>4,502</u>
Total	<u>\$ 1,188,744</u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE D: CAPITAL ASSETS

Capital asset activity for the year ended December 31, 2013, was as follows:

	Restated Balance Jan. 1, 2013	Additions/ Reclassification	Deletions/ Reclassification	Balance Dec. 31, 2013
Capital assets not being depreciated				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Construction in progress	2,036,061	813,002	(2,836,329)	12,734
Subtotal	4,048,692	813,002	(2,836,329)	2,025,365
Capital assets being depreciated				
Building and improvements	18,150,675	14,176	-	18,164,851
Land improvements	399,835	-	-	399,835
Machinery and equipment	2,354,228	103,051	-	2,457,279
Vehicles	14,378,549	1,835,395	(1,197,515)	15,016,429
Intangible assets	63,020	2,836,329	-	2,899,349
Subtotal	35,346,307	4,788,951	(1,197,515)	38,937,743
Less accumulated depreciation for:				
Building and improvements	(5,682,089)	(508,239)	-	(6,190,328)
Land improvements	(330,818)	(8,949)	-	(339,767)
Machinery and equipment	(1,837,990)	(189,699)	-	(2,027,689)
Vehicles	(7,688,860)	(1,153,412)	1,197,515	(7,644,757)
Intangible assets	(10,005)	(155,846)	-	(165,851)
Subtotal	(15,549,762)	(2,016,145)	1,197,515	(16,368,392)
Net capital assets being depreciated	19,796,545	2,772,806	-0-	22,569,351
Capital assets, net	<u>\$ 23,845,237</u>	<u>\$ 3,585,808</u>	<u>\$ (2,836,329)</u>	<u>\$ 24,594,716</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 \$1,197,515 and accumulated depreciation of \$1,197,515. Depreciation expense in the amount of \$2,016,145 was reported for year ended December 31, 2013.

NOTE E: COMPENSATED ABSENCES

Compensated absences activity for the year ended December 31, 2013, was as follows:

	Balance Jan. 1, 2013	Additions	Deletions	Balance Dec. 31, 2013	Amounts Due Within One Year
Compensated absences	<u>\$ 201,844</u>	<u>\$ 511,423</u>	<u>\$ (539,901)</u>	<u>\$ 173,366</u>	<u>\$ 21,670</u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE E: COMPENSATED ABSENCES - CONTINUED

In accordance with the City of Kalamazoo Metro Transit System's personnel policies and/or contracts negotiated with the various employee groups of the System, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$173,366 for vacation and sick at December 31, 2013. The amounts of \$21,670 and \$151,696 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.

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

NOTE H: CONTINGENT LIABILITIES

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

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. The City of Kalamazoo Postretirement Welfare Benefits Plan report has been issued under a separate cover.

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 \$1.468 billion representing 50% of estimated current market value. For the year ended December 31, 2013, the System levied 0.6000 mills.

NOTE K: COMPLIANCE REQUIREMENTS

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

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

NOTE L: RESTATEMENT OF BEGINNING NET POSITION

Beginning net position was increased by \$67,176 for the correction of an accounting error. A net pension asset of \$67,176 was omitted in the prior year.

NOTE M: CHANGE IN ACCOUNTING PRINCIPLE

GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, was implemented during the current year. This statement established accounting and financial reporting standards that reclassify, as deferred outflows and inflows of resources, certain items that were previously reported as assets and liabilities. This statement also provides other financial reporting guidance related to the impact of the financial statement elements deferred outflows of resources and deferred inflows of resources.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

December 31, 2013

NOTE N: UPCOMING ACCOUNTING PRONOUNCEMENTS

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

OTHER SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended December 31, 2013

	<u>1/1/2013 to 9/30/2013</u>	<u>10/1/2013 12/31/2013</u>	<u>Total</u>
Passenger fares	\$ 1,831,660	\$ 616,493	\$ 2,448,153
Charter service	1,092	-	1,092
Special transit	-	1,744	1,744
Other operating revenue	151,976	103,391	255,367
Tax levy	864,685	(5,743)	858,942
Local operating assistance	2,873,501	787,833	3,661,334
Investment income	7,067	3,398	10,465
Gain/loss on sale of capital assets	-	2,440	2,440
	<u> </u>	<u> </u>	<u> </u>
TOTAL LOCAL REVENUES	<u>\$ 5,729,981</u>	<u>\$ 1,509,556</u>	<u>\$ 7,239,537</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2013

	<u>10/1/2012 to 12/31/2012</u>	<u>1/1/2013 to 9/30/2013</u>	<u>Total</u>
Passenger fares	\$ 630,267	\$ 1,831,660	\$ 2,461,927
Charter service	-	1,092	1,092
Other operating revenue	98,923	151,976	250,899
Tax levy	(29,905)	864,685	834,780
Local operating assistance	788,490	2,873,501	3,661,991
Investment income	12,995	7,067	20,062
Gain/loss on sale of capital assets	8,391	-	8,391
	<u> </u>	<u> </u>	<u> </u>
TOTAL LOCAL REVENUES	<u>\$ 1,509,161</u>	<u>\$ 5,729,981</u>	<u>\$ 7,239,142</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended December 31, 2013

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Direct programs:								
Federal Transit - Capital Investment Grants	20.500							
Capital Grant - Section 5309 (80/20)		MI-04-0027/2007-0239/Z11	\$ 4,370,000	\$ 1,694,145	\$ 1,355,316	\$ 338,829	\$ 1,144,232	\$ 1,531,623
Capital Grant - Section 5309 (80/20)		MI-04-0047/2007-0239/Z14	2,937,500	92,940	74,352	18,588	776,613	2,067,947
Capital Grant - Section 5309 (80/20)		MI-03-0240/2007-0239/Z25	91,019	81,019	64,815	16,204	-	10,000
Federal Transit - Formula Grants	20.507							
Capital Grant - Section 5307(80/20)		MI-90-X562/2007-0239/Z10	374,874	-0-	-	-	369,365	5,509
Capital Grant - Section 5307(80/20)		MI-95-X047/2007-0239/Z15	217,949	60,232	48,186	12,046	127,242	30,475
Capital Grant - Section 5307(80/20)		MI-90-X634/2001-0239/Z24	400,000	696	557	139	397,410	1,894
ARRA - Capital Grant - Section 5307		MI-96-X015	3,155,510	800,268	800,268	-	2,355,242	-0-
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	33,828	27,062	6,766	1,922	-0-
Capital Grant - Section 5307(80/20)		MI-95-X073/2007-0239/Z23	167,266	-0-	-	-	108,726	58,540
Capital Grant - Section 5307(80/20)		MI-95-X080/2012-0112/P4	238,519	-0-	-	-	-	238,519
Capital Grant - Section 5307(80/20)		MI-90-X677/2012-0112/P8	830,000	336,117	268,894	67,223	-	493,883
Capital Grant - Section 5307(80/20)		MI-95-X102/2012-0112/P9	235,206	-0-	-	-	-	235,206
Operating Grant - Section 5307		MI-90-X677	1,980,000	1,980,000	1,980,000	-	-	-0-
Operating Grant - Section 5307		MI-90-4651	1,980,000	1,980,000	1,980,000	-	-	-0-
Passed through Michigan Department of Transportation								
Formula Grants for Other than Urbanized Areas	20.509							
Operating Assistance - Section 5311 (FY 14)		MI-18-X055/2012-0112/P12	10,679	5,978	5,978	-	-	4,701
Operating Assistance - Section 5311 (FY 13)		MI-18-X055/2012-0112/P7	434,829	18,463	18,463	-	6,172	410,194
New Freedom Program - Section 5317	20.521							
Mobility Manager (80/20)		MI-57-X010-02/2012-0112/P1	125,000	-0-	-	-	68,898	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	39,618	31,694	7,924	15,514	44,868
Capital (80/20)		MI-57-X010-03/2012-0112/P5	25,000	-0-	-	-	-	25,000

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Year Ended December 31, 2013

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Year's Expenditures			Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY14)		N/A	\$ 4,860,048	\$ 1,183,356	\$ -	\$ 1,183,356	\$ -	\$ 3,676,692
Operating Assistance (FY13)		N/A	4,830,825	3,174,027	-	3,174,027	1,030,663	626,135
Ridesharing Fellowship	N/A							
2013-2014		N/A	41,800	-0-	-	-	-	41,800
2012-2013		N/A	75,000	-0-	-	-	-	75,000
Specialized Services	N/A							
2013-2014		N/A	30,000	7,500	-	7,500	-	22,500
2012-2013		N/A	30,000	22,500	-	22,500	7,500	-0-
TOTALS			<u>\$ 27,738,992</u>	<u>\$ 11,510,687</u>	<u>\$ 6,655,585</u>	<u>\$ 4,855,102</u>	<u>\$ 6,409,499</u>	<u>\$ 9,818,806</u>

(a) The following reconciles the total Federal and State revenues reported in the December 31, 2013, 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	\$ 6,655,585	\$ -	\$ 6,655,585
State	5,091,531	(236,429)	4,855,102
	<u>\$ 11,747,116</u>	<u>\$ (236,429)</u>	<u>\$ 11,510,687</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended December 31, 2013

	1/1/2013 to 9/30/2013	10/1/2013 to 12/31/2013	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 3,174,027	\$ 1,183,356	\$ 4,357,383
U.S. Department of Transportation - Section 5317	7,924	-	7,924
Specialized Services	22,500	7,500	30,000
 Total State Operating Grants	 3,204,451	 1,190,856	 4,395,307
 Federal Operating Grants			
U.S. Department of Transportation - Section 5307	3,465,000	495,000	3,960,000
U.S. Department of Transportation - Section 5311	18,463	5,978	24,441
U.S. Department of Transportation - Section 5317	31,694	-	31,694
 Total Federal Operating Grants	 3,515,157	 500,978	 4,016,135
 TOTAL OPERATING GRANTS - STATE AND FEDERAL	 \$ 6,719,608	 \$ 1,691,834	 \$ 8,411,442

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended September 30, 2013

	10/1/2012 to 12/31/2012	1/1/2013 to 9/30/2013	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 1,030,663	\$ 3,174,027	\$ 4,204,690
U.S. Department of Transportation - Section 5317	3,103	7,924	11,027
Specialized Services	7,500	22,500	30,000
Total State Operating Grants	1,041,266	3,204,451	4,245,717
Federal Operating Grants			
U.S. Department of Transportation - Section 5307	-	3,465,000	3,465,000
U.S. Department of Transportation - Section 5311	6,172	18,463	24,635
U.S. Department of Transportation - Section 5317	12,411	31,694	44,105
Total Federal Operating Grants	18,583	3,515,157	3,533,740
 TOTAL OPERATING GRANTS - STATE AND FEDERAL	 \$ 1,059,849	 \$ 6,719,608	 \$ 7,779,457

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Year Ended December 31, 2013

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Total</u>
Labor	\$ 3,812,791	\$ 3,527	\$ -	\$ 3,816,318
Fringe benefits	3,255,286	2,339	-	3,257,625
Services	1,232,387	13,957	-	1,246,344
Materials and supplies	2,158,330	1,972	-	2,160,302
Utilities	286,029	3,731	-	289,760
Insurance	250,714	1,005	-	251,719
Taxes and fees	1,291	-	-	1,291
Purchased services	2,732,014	128,224	30,000	2,890,238
Miscellaneous	43,970	588	-	44,558
Depreciation	1,983,892	32,253	-	2,016,145
 Total expenses	 <u>\$ 15,756,704</u>	 <u>\$ 187,596</u>	 <u>\$ 30,000</u>	 <u>\$ 15,974,300</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, 2013

	Urban			Nonurban		
	1/1/2013 to 9/30/2013	10/1/2013 to 12/31/2013	Total	1/1/2013 to 9/30/2013	10/1/2013 to 12/31/2013	Total
Labor	\$ 2,844,093	\$ 968,698	\$ 3,812,791	\$ 2,790	\$ 737	\$ 3,527
Fringe benefits	2,138,830	1,116,456	3,255,286	1,741	598	2,339
Services	877,196	355,191	1,232,387	10,022	3,935	13,957
Materials and supplies	1,582,277	576,053	2,158,330	1,449	523	1,972
Utilities	212,433	73,596	286,029	2,866	865	3,731
Insurance	186,908	63,806	250,714	774	231	1,005
Taxes and fees	828	463	1,291	-	-	-0-
Purchased services	2,006,588	725,426	2,732,014	96,974	31,250	128,224
Miscellaneous	33,220	10,750	43,970	462	126	588
Depreciation	1,487,273	496,619	1,983,892	24,837	7,416	32,253
Total expenses	\$ 11,369,646	\$ 4,387,058	\$ 15,756,704	\$ 141,915	\$ 45,681	\$ 187,596

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING EXPENSES BY PROGRAM

Year Ended September 30, 2013

	Urban			Nonurban		
	Restated 10/1/2012 to 12/31/2012	1/1/2013 to 9/30/2013	Total	Restated 10/1/2012 to 12/31/2012	1/1/2013 to 9/30/2013	Total
Labor	\$ 940,041	\$ 2,844,093	\$ 3,784,134	\$ 879	\$ 2,790	\$ 3,669
Fringe benefits	1,257,125	2,138,830	3,395,955	438	1,741	2,179
Services	314,849	877,196	1,192,045	3,857	10,022	13,879
Materials and supplies	723,438	1,582,277	2,305,715	624	1,449	2,073
Utilities	64,413	212,433	276,846	906	2,866	3,772
Insurance	62,333	186,908	249,241	258	774	1,032
Taxes and fees	550	828	1,378	-	-	-0-
Purchased services	659,733	2,006,588	2,666,321	31,884	96,974	128,858
Miscellaneous	3,379	33,220	36,599	16	462	478
Depreciation	491,523	1,487,273	1,978,796	8,209	24,837	33,046
Total expenses	\$ 4,517,384	\$ 11,369,646	\$ 15,887,030	\$ 47,071	\$ 141,915	\$ 188,986

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2013

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 2,348,432
405	Charter service	
40500	Charter service	1,042
406	Auxiliary trans revenues	
40615	Advertising	41,625
40620	Intercity ticket sales	89,873
407	Nontrans revenues	
40720	Rental of buildings or other property	98,124
40725	Parking lot revenue	1,734
40760	Gain (loss) from sale of capital assets	8,004
40799	Other nontransportation revenue	9,231
408	Local revenue	
40800	Taxes levied directly for/by transit agency	796,297
409	Local revenue	
40910	Local operating assistance	3,493,173
411	State formula and contracts	
41101	State operating assistance	4,145,430
41114	Other capital contract reimbursement for operating expense	78,647
413	Federal contracts	
41302	Federal Section 5307 operating	3,465,000
41399	Other federal transit contracts and reimbursements	52,591
414	Other revenue	
41400	Interest income	19,137
	TOTAL URBAN SERVICE REVENUE	<u>\$ 14,648,340</u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2013

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operators' salaries and wages	\$ 2,264,700	\$ -	\$ -	\$ 2,264,700
50102	Other salaries and wages	164,651	700,544	373,818	1,239,013
50103	Dispatchers' salaries and wages	280,421	-	-	280,421
502	Fringe benefits				
50200	Other fringe benefits	1,737,030	533,077	720,254	2,990,361
50202	Other post-employment benefits	-	-	405,594	405,594
503	Services				
50302	Advertising fees	-	-	14,108	14,108
50305	Audit cost	-	-	7,524	7,524
50399	Other services	335,688	76,124	758,601	1,170,413
504	Materials and supplies				
50401	Fuel and lubricants	1,318,603	4,425	981	1,324,009
50402	Tires and tubes	83,643	-	-	83,643
50499	Other materials and supplies	150,985	677,146	69,932	898,063
505	Utilities				
50500	Utilities	84,394	-	192,452	276,846
506	Insurance				
50603	Liability insurance	187,465	-	-	187,465
50699	Other insurance	-	-	61,776	61,776
507	Taxes and fees				
50700	Taxes and fees	973	405	-	1,378
508	Purchased trans service				
50800	Purchased trans service	2,666,321	-	-	2,666,321
509	Miscellaneous expenses				
50902	Travel, meetings, and training	2,957	4,991	8,149	16,097
50903	Association dues and subscriptions	-	-	19,086	19,086
50999	Other miscellaneous expenses	-	-	1,416	1,416
513	Depreciation				
51300	Depreciation	-	-	1,978,796	1,978,796
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	1,951,567	1,951,567
55009	Ineligible percent of association dues	-	-	2,572	2,572
55015	Ineligible charter expense	1,092	-	-	1,092
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	-	-	41,625	41,625
56004	Ineligible expenses associated w/rentals	-	-	101,177	101,177
570	Ineligible expenses				
57604	Other ineligible operating expenses paid by capital contract	82,448	-	-	82,448
57099	Other ineligible Federal/State/Local	-	-	55,136	55,136
580	Ineligible expenses				
58007	Ineligible fringe benefits	-	-	126,268	126,268
				Total expenses	15,887,030
				Total ineligible expenses	<u>2,361,885</u>
				Total eligible expenses	<u>\$ 13,525,145</u>

City of Kalamazoo, Michigan
Metro Transit System

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

Year Ended September 30, 2013

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	1,934,141	248,435	-	2,182,576

⁽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, 2013

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 113,495
405	Charter service	
40500	Charter service	50
406	Auxiliary trans revenues	
40615	Advertising	695
40620	Intercity ticket sales	4,344
407	Nontrans revenues	
40720	Rental of buildings or other property	4,743
40725	Parking lot revenue	84
40760	Gain from sale of capital assets	387
40799	Other nontransportation revenue	446
408	Local revenue	
40800	Taxes levied directly for/by transit agency	38,483
409	Local revenue	
40910	Local operating assistance	168,818
411	State formula and contracts	
41101	State operating assistance	59,260
41114	Other capital contract reimbursement for operating expenses	3,801
413	Federal contracts	
41301	Federal Section 5311	24,635
41399	Other federal transit contracts and reimbursements	2,541
414	Other revenue	
41400	Interest income	925
TOTAL NONURBAN SERVICE REVENUE		<u>\$ 422,707</u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2013

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50102	Other salaries and wages	\$ 3,669	\$ -	\$ -	\$ 3,669
502	Fringe benefits				
50200	Other fringe benefits	2,179	-	-	2,179
503	Services				
50302	Advertising fees	-	-	235	235
50305	Audit cost	-	-	126	126
50399	Other services	849	-	12,669	13,518
504	Materials and supplies				
50401	Fuel and lubricants	444	-	16	460
50499	Other materials and supplies	446	-	1,167	1,613
505	Utilities				
50500	Utilities	558	-	3,214	3,772
506	Insurance				
50699	Other insurance	-	-	1,032	1,032
508	Purchased trans service				
50800	Purchased trans service	128,858	-	-	128,858
509	Miscellaneous expenses				
50902	Travel, meetings, and training	-	-	136	136
50903	Association dues and subscriptions	-	-	319	319
50999	Other miscellaneous expenses	-	-	23	23
513	Depreciation				
51300	Depreciation	-	-	33,046	33,046
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	32,591	32,591
55009	Ineligible percent of association dues	-	-	43	43
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	-	-	695	695
56004	Ineligible expenses associated w/rentals	-	-	1,690	1,690
Total expenses					188,986
Total ineligible expenses					35,019
Total eligible expenses					<u>\$ 153,967</u>

City of Kalamazoo, Michigan
Metro Transit System

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

Year Ended September 30, 2013

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	32,088	1,038	-	33,126

⁽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, 2013

	Urban	Nonurban
Total expenses	\$ 15,887,030	\$ 188,986
Less ineligible expenses		
Ineligible depreciation	1,951,567	32,591
Ineligible percent of association dues	2,572	43
Ineligible charter expense	1,092	-
Ineligible expenses associated w/advertising	41,625	695
Ineligible expenses associated w/rentals	101,177	1,690
Other ineligible operating expenses paid by capital contract	82,448	-
Other ineligible Federal/State/Local	55,136	-
Ineligible fringe benefits	126,268	-
	2,361,885	35,019
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 13,525,145	\$ 153,967
Eligible expenses for State reimbursement	\$ 13,525,145	\$ 153,967
x Reimbursement percentage	30.6498%	38.4886%
State operating assistance	\$ 4,145,430	\$ 59,260
Eligible expenses for Federal reimbursement		\$ 153,967
x Reimbursement percentage	N/A	16.00%
Federal operating assistance	\$ 3,465,000	\$ 24,635

Principals

Dale J. Abraham, CPA
Michael T. Gaffney, 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, 2013, 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 24, 2014.

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 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 24, 2014