

City of Kalamazoo, Michigan

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

December 31, 2013

City of Kalamazoo, Michigan

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE FOR EACH MAJOR PROGRAM
AND ON INTERNAL CONTROL OVER COMPLIANCE REQUIRED BY OMB CIRCULAR A-133

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

Report on Compliance for Each Major Federal Program

We have audited the City of Kalamazoo, Michigan's (the City) compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2013. The City of Kalamazoo's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Kalamazoo, Michigan, complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2013.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

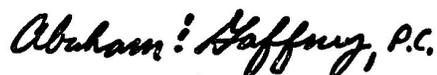
A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. *A material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. *A significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Expenditures of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan, as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements. We did not audit the financial statements of the City of Kalamazoo Downtown Development Authority (a discretely presented component unit) which represents 5 percent, -5 percent, and 20 percent, respectively, of the assets, net position, and revenues of the aggregate discretely presented component units. We issued our report thereon dated June 26, 2014, which contained unmodified opinions on those financial statements based on our audit and the reports of other auditors. Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the basic financial statements. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditures of federal awards is fairly stated in all material respects in relation to the basic financial statements as a whole.



ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 26, 2014

City of Kalamazoo, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2013

Federal Grantor/Pass-Through Grantor/Program Title	CFDA Number	Pass-Through Grantors Number	Federal Expenditures
U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			
Direct programs:			
Community Development Block Grants ^(b)	14.218		
Program Year 2010-11		N/A	\$ 81,166
Program Year 2011-12		N/A	34,611
Program Year 2012-13		N/A	376,207
Program Year 2013-14		N/A	269,086
General Program Administration		N/A	363,531
Program Delivery		N/A	<u>290,508</u>
			1,415,109
Emergency Shelter Grants Program	14.231		
Program Year 2011-12		N/A	29,538
Program Year 2012-13		N/A	88,411
Program Year 2013-14		N/A	<u>15,643</u>
			133,592
Home Investment Partnerships Program ^(b)	14.239		
CDBG Home Administration		N/A	75,539
Program Year 2010-11		N/A	120,178
Program Year 2011-12		N/A	325,021
Program Year 2012-13		N/A	<u>170,798</u>
			<u>691,536</u>
TOTAL U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT			2,240,237
U.S. DEPARTMENT OF JUSTICE			
Direct programs:			
Joint Law Enforcement Operations	16.111		
KVET equity sharing		N/A	3,859
Bulletproof Vest Partnership Program 2013	16.607		
		N/A	5,744
Edward Byrne Memorial Justice Assistance Grant Program	16.738		
Program Year 2010		N/A	19,531
Program Year 2011		N/A	9,541
Program Year 2012		N/A	8,846
Program Year 2013		N/A	<u>53,209</u>
			<u>91,127</u>
TOTAL U.S. DEPARTMENT OF JUSTICE			100,730

City of Kalamazoo, Michigan

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2013

<u>Federal Grantor/Pass-Through Grantor/Program Title</u>	<u>CFDA Number</u>	<u>Pass-Through Grantors Number</u>	<u>Federal Expenditures</u>
U.S. DEPARTMENT OF TRANSPORTATION			
Direct programs:			
Federal Transit - Capital Investment Grants ^(a)	20.500		
Capital Grant - Section 5309		N/A	\$ 1,355,316
Capital Grant - Section 5309		N/A	74,352
Capital Grant - Section 5309		N/A	<u>64,815</u>
			1,494,483
Federal Transit - Formula Grants ^(a)	20.507		
Capital Grant - Section 5307		N/A	48,186
Capital Grant - Section 5307		N/A	557
Capital Grant - Section 5307		N/A	27,062
Capital Grant - Section 5307		N/A	268,894
Operating Grant - Section 5307		N/A	1,980,000
Operating Grant - Section 5307		N/A	<u>1,980,000</u>
			4,304,699
ARRA - Federal Transit - Formula Grants ^(a)	20.507		
Capital Grant - Section 5307		N/A	800,268
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	18,463
Operating Assistance - Section 5311 (FY 14)		MI-18-X055/2012-0112/P12	<u>5,978</u>
			24,441
New Freedom Program	20.521		
Capital Grant - Section 5317		MI-57-X010-03/2012-0112/P5	<u>31,694</u>
TOTAL U.S. DEPARTMENT OF TRANSPORTATION			6,655,585
ENVIRONMENTAL PROTECTION AGENCY			
Passed through Michigan Department of Environmental Quality			
Capitalization Grants for Drinking Water State Revolving Funds	66.468	N/A	29,700
U.S. DEPARTMENT OF HOMELAND SECURITY			
Direct programs:			
Assistance to Firefighters Grant ^(b)	97.044	N/A	510,191
Passed through Township of Oshtemo			
Assistance to Firefighters Grant ^(b)	97.044	EMW-2011-FO-04140	<u>4,364</u>
TOTAL U.S. DEPARTMENT OF HOMELAND SECURITY			<u>514,555</u>
TOTAL EXPENDITURES OF FEDERAL AWARDS			<u>\$ 9,540,807</u>

City of Kalamazoo, Michigan

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year Ended December 31, 2013

NOTE A: BASIS OF PRESENTATION

The accompanying Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Kalamazoo, Michigan, and is presented on the modified accrual basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Nonprofit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in or used in the preparation of the basic financial statements, which are reconciled in Note C.

NOTE B: SUMMARY OF SIGNIFICANT EXPLANATIONS OF SCHEDULE

The following descriptions identified below as (a) - (b) represent explanations that cross reference to amounts on the Schedule of Expenditures of Federal Awards:

- (a) Denotes programs required to be clustered by the United States Department of Transportation.
- (b) Denotes program tested as a "major program".

NOTE C: RECONCILIATION TO SCHEDULE OF FEDERAL FINANCIAL ASSISTANCE EXPENDITURES

The following reconciles the intergovernmental revenues reported in the December 31, 2013, basic financial statements to the expenditures of the City administered federal programs reported on the Schedule of Expenditures of Federal Awards:

	Federal/ State/Local Revenue	Less: State/Local Revenue	Federal Award Expenditures
PRIMARY GOVERNMENT			
GENERAL FUND	\$ 9,354,456	\$ 9,354,456	\$ -0-
SPECIAL REVENUE FUNDS			
Neighborhood and Community Development	2,240,237	-	2,240,237
Grants and Donations	264,517	163,282	101,235
Drug Enforcement	24,466	20,607	3,859
Other programs	6,073,918	6,073,918	-0-
Total Special Revenue Funds	8,603,138	6,257,807	2,345,331
CAPITAL PROJECTS FUNDS	1,034,543	524,352	510,191
ENTERPRISE FUNDS			
Wastewater	139,167	139,167	-0-
Water	1,951,184	1,921,484	29,700
Total Enterprise Funds	2,090,351	2,060,651	29,700
TOTAL PRIMARY GOVERNMENT	21,082,488	18,197,266	2,885,222
COMPONENT UNITS			
Metro Transit	15,408,450	8,752,865	6,655,585
	<u>\$ 36,490,938</u>	<u>\$ 26,950,131</u>	<u>\$ 9,540,807</u>

City of Kalamazoo

NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS - CONTINUED

Year Ended December 31, 2013

NOTE D: SUBRECIPIENTS

Of the federal expenditures presented in the Schedule of Expenditures of Federal Awards as of December 31, 2013, the City provided federal awards to subrecipients in the amount of \$559,991 from the Community Development Block Grants (CFDA 14.218); \$130,793 from the Emergency Shelter Grants Program (CFDA 14.231); \$615,996 from the Home Investment Partnerships Program (CFDA 14.239); and \$37,918 from the Edward Byrne Memorial Justice Assistance Grant Program (CFDA 16.738).

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

Honorable Mayor and
Members of the City Commission
City of Kalamazoo, Michigan

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Kalamazoo, Michigan (the City) as of and for the year ended December 31, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated June 26, 2014. We did not audit the financial statements of the City of Kalamazoo Downtown Development Authority (a discretely presented component unit) which represents 5 percent, -5 percent, and 20 percent, respectively, of the assets, net position, and revenues of aggregate discretely presented component units. Those financial statements were audited by other auditors whose report thereon has been furnished to us, and our opinions, insofar as they relate to the amounts included for the Downtown Development Authority, are based solely on the report of the other auditors.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A *deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over financial reporting 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 and therefore, material weaknesses or significant deficiencies may exist that were not identified. 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. We did identify a certain deficiency in internal control, described in the accompanying schedule of findings and questioned costs as 2009-4 that we consider to be a significant deficiency.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Response to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 26, 2014

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year Ended December 31, 2013

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unmodified

Internal control over financial reporting:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? X Yes _____ None reported

Noncompliance material to financial statements noted? _____ Yes X No

Federal Awards

Internal control over major programs:

Material weakness(es) identified? _____ Yes X No

Significant deficiencies identified that are not considered to be material weakness(es)? _____ Yes X None reported

Type of auditor's report issued on compliance for major programs: Unmodified

Any audit findings disclosed that are required to be reported in accordance with Section 510(a) of Circular A-133? _____ Yes X No

Identification of major programs:

CFDA Number(s)	Name of Federal Program or Cluster
14.218	Community Development Block Grant Program Home Investment Partnerships Program Assistance to Firefighters
14.239	
97.044	

Dollar threshold used to distinguish between Type A and Type B programs: \$ 300,000

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

Section II - Financial Statement Findings

2009-4 FORMAL WRITTEN FINANCIAL POLICIES

Condition: During the course of our audit, we noted that while the City has various policies and internal controls in place, formal written financial policies and related internal control documentation has not been compiled into a single publication. We also noted opportunities to clarify certain existing policies, such as the capital assets policy by defining a dollar threshold and implementing a formal process for monitoring and tracking events that could cause a capital asset to be impaired or disposed. This issue was noted and reported in our audit comments last year.

SCHEDULE OF FINDINGS AND QUESTIONED COSTS - CONTINUED

Year Ended December 31, 2013

Section II - Financial Statement Findings - Continued

2009-4 FORMAL WRITTEN FINANCIAL POLICIES - CONTINUED

Criteria: Financial policies are essential to sound internal control and the safeguarding of the City's assets. Documenting specific policies and procedures also allows employees to have a clearer understanding of management's expectations.

Cause: The City has not compiled a single publication documenting formal written financial policies and related internal controls.

Effect: Not having formal written financial policies contained in a single publication exposes the City to internal control risks, including the risk of inconsistent application of policies and procedures and the risk of material misstatement of the City's financial statements.

Recommendation: We recommend that the City develop and adopt formal written financial policies and maintain those policies in a single publication. The financial policies document should address such areas including, but not limited to, internal controls, budgeting, investments, debt management, capital asset management, fraud risk management, fund balance targets, credit/debit card use, and electronic transactions policy.

Corrective Action Response: Management has reviewed and updated the City's internal controls from a third party study. In addition to updating the controls, additional procedures were documented for public safety and metro-transit cash receipts, metro-transit inventory, pension system controls, and information technology. A schedule for documenting additional controls and annual departmental review has been established. Management intends to have a consolidated financial policy in place by 12/31/2014 that will address budgeting, investments, debt management, capital asset management, fraud risk management, and fund balance targets.

Section III - Federal Award Findings and Questioned Costs

None noted.

City of Kalamazoo, Michigan

SUMMARY SCHEDULE OF PRIOR YEAR AUDIT FINDINGS

Year Ended December 31, 2013

FINDINGS/NONCOMPLIANCE

Control Deficiencies and Material Weaknesses Related to Internal Controls Over the Financial Statements.

2011-1 REVIEW OF CUSTOMER ACCOUNT ADJUSTMENTS

Condition: During the course of our audit, and review of procedures in the Treasurer's office, we noted that while it is the City's policy that adjustments made by staff members to customer accounts be reviewed by management on a periodic basis, we noted that there is no documentation that this review is taking place.

Resolution: The City implemented additional procedures during the year to document the review of customer accounts. This issue is considered resolved.

Findings Related to Compliance with Requirements Applicable to the Financial Statements.

2009-4 FORMAL WRITTEN FINANCIAL POLICIES

Condition: During the course of our audit, we noted that while the City has various policies and internal controls in place, formal written financial policies and related internal control documentation has not been compiled into a single publication. We also noted opportunities to clarify certain existing policies, such as the capital assets policy by defining a dollar threshold and implementing a formal process for monitoring and tracking events that could cause a capital asset to be impaired or disposed.

Resolution: This issue was noted during the current audit and repeated in the schedule of findings and questioned costs as 2009-4.

2012-1 FUND DEFICITS

Condition: At the end of the prior fiscal year the Local Development Finance Authority (LDFA) component units reported a fund deficit.

Resolution: Numbered Letter 2014-1 issued by the Michigan Department of Treasury during the year clarified the definition of deficits. Based on these criteria, the LDFA is no longer considered to have a deficit. This issue is considered resolved.