

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

FINANCIAL STATEMENTS

September 30, 2016

City of Kalamazoo, Michigan
Metro Transit System

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INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the City of Kalamazoo, Michigan, Metro Transit System (the System), a component unit of the City of Kalamazoo, Michigan, as of and for the nine months ended September 30, 2016, 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 September 30, 2016, and the changes in financial position and cash flows thereof for the nine months then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, schedule of changes in employer's net pension liability and related ratios, schedule of investment returns, schedule of employer contributions, and other post-employment benefits plan schedules of funding progress and employer contributions, as identified in the table of contents, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise the Transit's basic financial statements. Certain schedules and service reports, as identified in the table of contents, are presented for purposes of additional analysis and are not a required part of the financial statements.

The schedules and service reports, as identified in the table of contents, are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information, except for the portions marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the other supplementary information is fairly stated in all material respects in relation to the financial statements as a whole.

The urban and nonurban regular service nonfinancial reports, as identified in the table of contents, have not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on them.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated June 28, 2017, on our consideration of the City of Kalamazoo, Michigan, Metro Transit System's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the System's internal control over financial reporting and compliance.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 28, 2017

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

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 nine months ended September 30, 2016 and for the year ended December 31, 2015. 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.

On October 1, 2016, the City of Kalamazoo transferred the operations of the System to a newly formed Kalamazoo county-wide entity, the Central County Transportation Authority. As such, the financial information presented in this report is for the nine months ending September 30, 2016. When reviewing comparative information within this Management's Discussion and Analysis, please note that we are comparing operating results for twelve months in 2015.

Using this Audit Report

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

Basic Financial Statements and Presentation

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

The Statement of Net Position presents information on all of the System's assets, deferred outflows of resources, liabilities, and deferred inflows of resources, with the difference between them reported as net position. Over time, increases and decreases in net position may serve as a useful indicator of whether the financial position of the System is improving or deteriorating. Net positions increase when revenues exceed expenses. Improved financial position is indicated by increases in assets and deferred outflows of resources without corresponding increases to liabilities and deferred inflows of resources.

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

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

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

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

FINANCIAL ANALYSIS - COMPARATIVE

The Metro Transit System's total net position increased 0.41% from nine months ago - increasing from \$37,246,514 to \$37,397,399. In a condensed format, the table below shows a comparison of the net position as of September 30, 2016, to the prior year December 31, 2015.

CONDENSED SUMMARY OF NET POSITION

	September 30, 2016	December 31, 2015
Current and Other Assets	\$ 7,260,061	\$ 5,419,799
Other Noncurrent Assets	9,759,947	10,042,751
Capital Assets, net	23,890,047	24,740,765
Total Assets	40,910,055	40,203,315
Deferred Outflows of Resources	2,777,421	2,777,421
Current Liabilities	1,960,096	1,405,496
Noncurrent Liabilities	4,269,706	4,268,451
Total Liabilities	6,229,802	5,673,947
Deferred Inflows of Resources	60,275	60,275
Net Position		
Investment in capital assets	23,890,047	24,740,765
Unrestricted	13,507,352	12,505,749
Total Net Position	\$ 37,397,399	\$ 37,246,514

Current Assets

Current assets increased 34% due primarily to an increase in accounts receivable and due from other units of government. Components of current assets include:

Cash and cash equivalents

The system maintains a checking account for payments and receipts of operations. The System will also invest excess cash into short term investments in order to earn higher interest earnings. See Note B in the Footnotes to the Financial Statements for further information on the System's deposits.

Accounts receivable

The receivables are comprised of amounts due to the System from customers such as local units that fund certain transit services, other customers of the system, or other amounts due to the unit. The \$230,691 increase from 2015 is primarily due to a reimbursement due to the System for favorable results in the System's participation in the Michigan Transit Pool.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

Due from Other Units of Government

The amounts due from Other Units of Government are primarily balances due from the Federal Government or State of Michigan for various grants and operating assistance or from other local units of government such as the Kalamazoo County Transit Authority (KCTA), the Central County Transportation Authority (CCTA), or the City of Kalamazoo. The \$2,332,565 increase was primarily due to a balance due from the Federal Government for an operating grant draw that was due to the System as of September 30, 2016.

Inventories

Materials and supplies for maintaining the System's vehicles and fuel on hand at September 30, 2016 are included in Inventories. There was no significant change in inventories as compared to December 31, 2015.

Other Noncurrent Assets

Other noncurrent assets include the System's net pension asset and net other post-employment benefits (OPEB) asset. The presence of these benefits means the pension and OPEB plan assets have exceeded required funding in accordance with GASB standards. There was no change in the pension benefit as of September 30, 2016. The \$282,804 reduction in the OPEB asset is due to the utilization of the benefit to cover annual expense of the OPEB.

Capital Assets, Net of Depreciation

As of September 30, 2016, the System had capital assets with a historical cost of approximately \$43,856,638. This is an increase of \$439,455 from nine months ago. The System added twelve new vans and two buses in 2016, along with other maintenance and security equipment.

Deferred Outflows of Resources

The system recorded \$2,777,421 of deferred outflows of resources related to pensions in 2016. The deferred outflows of resources is due to the difference between projected and actual investment earnings on pension plan investments and changes in assumptions.

Current Liabilities

The 39% increase in current liabilities is due primarily to an increase in accrued wages payable. Current Liabilities include:

Accounts Payable

Accounts payable are the amounts due for goods and services received, but not paid by the date of the Statement of Net Position. Payables increased approximately 36% due primarily to the timing of payments for services performed or materials received prior to September 30, 2016, but not paid until subsequent to the period end.

Accrued Wages Payable

Accrued wages payable are salaries earned by the System's employees through September 30, 2016, but not paid until subsequent to the period end. The payable went from a \$0 to a \$384,421 balance due to payroll timing.

Due to Other Governmental Units

Amounts due to the City of Kalamazoo for various administrative services and insurance fund participation are included in Due to Other Governmental Units. The 13% decrease is primarily due to the change in payroll timing and other timing factors at the end of the period.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

Unearned Revenue

The System holds operating funds or any other grant funds received, but not expenses as of September 30, 2016, in Unearned Revenues. The 16% decrease is primarily due to the reduction in the difference between the receipt of operating funds and the expenditure of those funds.

Current portion of Compensated Absences

This represents the amount of earned and vested vacation and sick leave that the System expects to pay to employees within one year. The 50% increase is due to the natural cycle of employee leave accumulation at September 30, 2016 when compared to the close of a calendar year on December 31, 2016.

Noncurrent Liabilities

There were no significant changes in noncurrent liabilities at September 30, 2016 as compared to December 31, 2015.

Noncurrent portion of other post-employment benefits obligation

The noncurrent portion of the other post-employment benefits bonds represents the amounts expected to be paid beyond one year. The noncurrent portion did not change from December 31, 2015 as the first principal payment for this debt is due on December 1, 2016, subsequent to the nine months ending September 30, 2016.

Deferred Inflows of Resources

The system recorded \$60,275 of deferred inflows of resources related to pensions in 2016. The deferred inflows of resources is due to the difference between expected and actual experience.

Net Position

At September 30, 2016, 64% 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. Net position was fairly consistent, increasing by approximately 0.41%.

The Metro Transit System Activities

In a condensed format, the following table shows a comparison of the revenues and expenses for September 30, 2016 and December 31, 2015. The Metro Transit System's net position increased \$150,885 for the nine months ending September 30, 2016, meaning revenues exceeded expenditures for the period. The following comparison of activity is comparing nine months of activity to a full twelve months of activity. This reduction of four months of activity is the primary reason operating revenues decreased approximately \$571,000, operating expenses decreased approximately \$4,565,000, and nonoperating intergovernmental revenues decreased approximately \$882,000. State operating funding also decreased due to reductions in the state operating revenue percentages. The Metro Transit System's tax revenues decreased by approximately \$765,000 as the System did not issue a tax levy in 2016 due to the planned transition to the CCTA. Instead of having a separate millage for the residents of the City, the CCTA now levy's taxes to participating communities in the central transit system. Tax revenues for the nine months ending September 30, 2016, were related to prior tax year adjustments. Capital grant funding can vary year to year depending on State and Federal awards and planned capital expenditures. The capital grant funding decreased by approximately \$1,625,886 as the System did not add any large passenger buses in the nine months ending September 30, 2016, as compared to the addition of three large passenger buses in 2015.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

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

	September 30, 2016	December 31, 2015
Operating Revenue (Expenses)		
Operating revenues	\$ 2,157,790	\$ 2,729,080
Operating expenses	(12,496,753)	(17,061,922)
Operating Loss	(10,338,963)	(14,332,842)
Nonoperating Revenues (Expenses)		
Tax levy	110,592	876,306
Federal grants and reimbursements	2,413,164	2,472,679
State grants and reimbursements	3,291,749	4,260,006
Local grants and reimbursements	4,148,573	4,010,366
Investment income	1,590	9,246
Interest expense on long-term debt	(131,760)	(166,071)
Bond issuance expense	-	(27,144)
Gain/loss on sale of capital assets	(67,912)	1,502
Total Nonoperating Revenues	9,765,996	11,436,890
Capital Grant Revenue	723,852	2,349,738
Change in Net Position	150,885	(546,214)
Net position - Beginning of Year	37,246,514	37,792,728
Net position - End of Year	\$ 37,397,399	\$ 37,246,514

Economic Factors

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

In August 2015, the Kalamazoo regional communities approved a new region-wide transit millage of .75 mills, and established the funding for the Central County Transit Authority (CCTA). In October 2015, the City of Kalamazoo Metro Transit System and the Central County Transit Authority approved the Comprehensive Transfer Agreement. Under this agreement, the operations of the System will be transferred to the new CCTA on October 1, 2016. During 2016, the system added a Sunday service and increased its hours to better meet customer needs. Under a revenue sharing agreement, the CCTA provided the System with \$1,025,000 of the new tax levy to cover expanded operations and the loss of the System's own millage during the period of transition. The System continues to expand the Intelligent Transportation System to connect people to the "Track My Bus" system allowing riders to locate where buses are on a map, along with estimated arrival times for bus stops of choice.

City of Kalamazoo, Michigan
Metro Transit System

MANAGEMENT'S DISCUSSION AND ANALYSIS

September 30, 2016

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 period ending September 30, 2016. For the period ending September 30, 2016, the System anticipates State operating assistance to fund 29.0011% of eligible urban expenses and 35.7560% of eligible nonurban expenses.

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

September 30, 2016

ASSETS	
Current assets	
Cash and cash equivalents	\$ 2,646,365
Accounts receivable	268,312
Taxes receivable	31,127
Due from other governmental units	3,861,838
Inventories	409,174
Prepays	<u>43,245</u>
Total current assets	7,260,061
Noncurrent assets	
Net pension asset	6,486,345
Net other post-employment benefits asset	3,273,602
Capital assets not being depreciated	2,012,631
Capital assets, net of accumulated depreciation	<u>21,877,416</u>
Total noncurrent assets	<u>33,649,994</u>
TOTAL ASSETS	40,910,055
DEFERRED OUTFLOWS OF RESOURCES	
Deferred outflows of resources related to pensions	2,777,421
LIABILITIES	
Current liabilities	
Accounts payable	569,372
Accrued interest payable	58,560
Accrued wages payable	384,421
Due to other governmental units	289,230
Unearned revenue	345,852
Current portion of OPEB bonds payable	90,396
Current portion of compensated absences	<u>222,265</u>
Total current liabilities	1,960,096
Noncurrent liabilities	
Noncurrent portion of OPEB bonds payable	4,230,873
Noncurrent portion of compensated absences	<u>38,833</u>
Total noncurrent liabilities	<u>4,269,706</u>
TOTAL LIABILITIES	6,229,802
DEFERRED INFLOWS OF RESOURCES	
Deferred inflows of resources related to pensions	<u>60,275</u>
NET POSITION	
Net investment in capital assets	23,890,047
Unrestricted	<u>13,507,352</u>
TOTAL NET POSITION	<u><u>\$ 37,397,399</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION

Nine Months Ended September 30, 2016

OPERATING REVENUES	
Passenger fares	\$ 1,783,951
Special transit	2,537
Other operating revenue	<u>371,302</u>
TOTAL OPERATING REVENUES	2,157,790
OPERATING EXPENSES	
Operations	7,083,711
Maintenance	1,629,868
General administration	<u>3,783,174</u>
TOTAL OPERATING EXPENSES	<u>12,496,753</u>
OPERATING (LOSS)	(10,338,963)
NONOPERATING REVENUES (EXPENSES)	
Taxes	110,592
Intergovernmental	
Federal sources	2,413,164
State sources	3,291,749
Local sources	4,148,573
Investment income	1,590
Interest expense on long-term debt	(131,760)
(Loss) on sale of capital assets	<u>(67,912)</u>
TOTAL NONOPERATING REVENUES (EXPENSES)	<u>9,765,996</u>
NET (LOSS) BEFORE CAPITAL GRANT REVENUE	(572,967)
CAPITAL GRANT REVENUE	
Intergovernmental	
Federal sources	584,028
State sources	<u>139,824</u>
TOTAL CAPITAL GRANT REVENUE	<u>723,852</u>
CHANGE IN NET POSITION	150,885
Net position, beginning of year	<u>37,246,514</u>
Net position, end of year	<u><u>\$ 37,397,399</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

STATEMENT OF CASH FLOWS

Nine Months Ended September 30, 2016

CASH FLOWS FROM OPERATING ACTIVITIES	
Cash receipts from customers	\$ 1,555,797
Other operating cash receipts	371,302
Cash paid to suppliers	(5,231,012)
Cash paid for employee benefits	(2,179,198)
Cash paid to employees	<u>(2,636,256)</u>
NET CASH (USED) BY OPERATING ACTIVITIES	(8,119,367)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES	
Interest paid on long-term debt	(87,840)
Taxes	152,216
Intergovernmental sources	<u>7,311,891</u>
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	7,376,267
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES	
Capital purchases	(709,019)
Capital contributions	<u>833,146</u>
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	124,127
CASH FLOWS FROM INVESTING ACTIVITIES	
Interest received	<u>1,590</u>
NET (DECREASE) IN CASH AND CASH EQUIVALENTS	(617,383)
Cash and cash equivalents, beginning of year	<u>3,263,748</u>
Cash and cash equivalents, end of year	<u><u>\$ 2,646,365</u></u>
Reconciliation of operating (loss) to net cash (used) by operating activities	
Operating (loss)	\$ (10,338,963)
Adjustments to reconcile operating (loss) to net cash (used) by operating activities	
Depreciation	1,491,025
(Increase) decrease in:	
Accounts receivable	(230,691)
Inventories	(29,799)
Prepays	94,895
Net other post-employment benefits asset	282,804
Increase in:	
Accounts payable	151,942
Accrued wages payable	384,421
Compensated absences	<u>74,999</u>
NET CASH (USED) BY OPERATING ACTIVITIES	<u><u>\$ (8,119,367)</u></u>

See accompanying notes to financial statements.

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

September 30, 2016

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

4. Basis of Accounting - continued

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

5. Cash and Cash Equivalents

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

6. Receivables/Due From Other Governmental Units

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

7. Inventories

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

8. Prepays

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

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

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

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

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

The eligible depreciation for the year ended September 30, 2016, of \$21,663 (\$2,094,300 total depreciation reported in Operating Assistance Report (OAR) code 51300 for both Urban and Nonurban less ineligible depreciation of \$2,072,637 reported in OAR code 55007 Ineligible Depreciation) includes only the depreciation of assets purchased with local funds and where the useful life of the asset purchased has been approved by OPT.

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

10. Compensated Absences

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

11. Unearned Revenue

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

12. Deferred Outflows/Inflows of Resources

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

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

13. Cost Allocations

The City of Kalamazoo Metro Transit System has three (3) cost allocation plans where the methodology has been approved by the OPT. Those cost allocations are for charter service, urban and nonurban service, and Kalamazoo Transportation Center lease. These cost allocation plans were adhered to in the preparation of the financial statements.

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

14. Comparative Data

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

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

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

Ineligible expenses are classified appropriately according to the definition in the Local Public Transit Revenue and Expense Manual (R&E Manual). Any capital money used to pay for operating expenses is subtracted out as ineligible expense and no expenses previously paid with capital money are included in expenses to be reimbursed. All costs associated with earning nontransportation revenue have been subtracted out as ineligible expenses. Eligible pension 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 B: DEPOSITS

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>\$ 2,645,665</u>	<u>\$ 2,471,047</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

September 30, 2016

NOTE B: DEPOSITS - CONTINUED

Custodial Credit Risk

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

Interest Rate Risk

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

Concentration of Credit Risk

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

NOTE C: DUE FROM OTHER GOVERNMENTAL UNITS

Due from other governmental units at September 30, 2016, by grant type and grant award year are as follows:

Federal Section 5307 Capital - FY 2012	\$ 1,178
Federal Section 5307 Capital - FY 2013	26,944
Federal Section 5307 Capital - FY 2014	76,034
Federal Section 5310 Capital - FY 2012	10,337
Federal Section 5311 Operating - FY 2015	2,170
Federal Section 5311 Operating - FY 2016	6,179
Federal Section 5310 Operating - FY 2012	9,286
Federal Section 5307 Operating - FY 2016	2,383,966
State Operating Assistance - FY 2016	3,624
State Operating Assistance - FY 2015	1,680
State Operating Assistance - FY 2014	83,821
State Operating Assistance - FY 2013	94,550
Ridesharing Fellowship - FY 2012	17,027
Specialized Services - FY 2012	7,500
Central County Transportation Authority	1,025,000
City of Kalamazoo	510
Local Community Stabilization Authority	112,032
Total	<u>\$ 3,861,838</u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE D: CAPITAL ASSETS

Capital asset activity for the nine months ended September 30, 2016, was as follows:

	Balance Jan. 1, 2016	Additions	Deletions	Balance Sept. 30, 2016
Capital assets not being depreciated				
Land	\$ 2,012,631	\$ -	\$ -	\$ 2,012,631
Capital assets being depreciated				
Building and improvements	18,175,850	-	(118,811)	18,057,039
Land improvements	325,335	-	-	325,335
Machinery and equipment	2,326,119	35,255	(37,928)	2,323,446
Vehicles	17,636,804	673,764	(112,825)	18,197,743
Intangible assets	2,940,444	-	-	2,940,444
Subtotal	41,404,552	709,019	(269,564)	41,844,007
Less accumulated depreciation for:				
Building and improvements	(7,100,647)	(155,849)	50,099	(7,206,397)
Land improvements	(276,886)	(3,771)	-	(280,657)
Machinery and equipment	(1,779,115)	(86,782)	37,928	(1,827,969)
Vehicles	(8,748,566)	(1,019,382)	112,825	(9,655,123)
Intangible assets	(771,204)	(225,241)	-	(996,445)
Subtotal	(18,676,418)	(1,491,025)	200,852	(19,966,591)
Net capital assets being depreciated	22,728,134	(782,006)	(68,712)	21,877,416
Capital assets, net	<u>\$ 24,740,765</u>	<u>\$ (782,006)</u>	<u>\$ (68,712)</u>	<u>\$ 23,890,047</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 nine months ended September 30, 2016, the City of Kalamazoo Metro Transit System disposed of assets that were Federally and State funded with a historical cost of \$269,564 and accumulated depreciation of \$200,852. Depreciation expense in the amount of \$1,491,025 was reported for the nine months ended September 30, 2016.

NOTE E: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the System for the nine months ended September 30, 2016:

	Balance Jan. 1, 2016	Additions	Deletions	Balance Sept. 30, 2016	Amounts Due Within One Year
2015 OPEB bonds	<u>\$ 4,321,269</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 4,321,269</u>	<u>\$ 90,396</u>

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE E: LONG-TERM DEBT - CONTINUED

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

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

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

<u>Year Ending September 30,</u>	<u>Principal</u>	<u>Interest</u>
2017	\$ 90,396	\$ 175,680
2018	91,611	174,674
2019	93,069	173,233
2020	94,770	171,400
2021	96,957	169,201
2022-2026	529,011	801,914
2027-2031	629,856	701,106
2032-2036	775,413	555,448
2037-2041	968,841	362,015
2042-2044	<u>951,345</u>	<u>113,606</u>
	<u>\$ 4,321,269</u>	<u>\$ 3,398,277</u>

NOTE F: COMPENSATED ABSENCES

Compensated absences activity for the nine months ended September 30, 2016, was as follows:

	<u>Balance Jan. 1, 2016</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance Sept. 30, 2016</u>	<u>Amounts Due Within One Year</u>
Compensated absences	<u>\$ 186,099</u>	<u>\$ 262,333</u>	<u>\$ (187,334)</u>	<u>\$ 261,098</u>	<u>\$ 222,265</u>

In accordance with the City of Kalamazoo Metro Transit System's personnel policies and/or contracts negotiated with the various employee groups of the System, individual employees have vested rights upon termination of employment to receive payment for unused vacation and sick leave under formulas and conditions specified in the respective personnel policies and/or contracts. The dollar amount of these vested rights, including related payroll taxes, amounted to \$261,098 for vacation and sick at September 30, 2016. The amounts of \$222,265 and \$38,833 have been reported as current and noncurrent liabilities, respectively.

NOTE G: DEFINED BENEFIT PENSION PLAN

Plan Administration

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Plan Administration - continued

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

Plan Membership

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

Inactive employees or beneficiaries receiving benefits	965
Inactive employees entitled to but not yet receiving benefits	41
Active employees	<u>624</u>
Total employees covered by the plan	<u><u>1,630</u></u>

Benefits Provided

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

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

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

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Contributions

Transit members are required to contribute 1.0 percent of annual compensation to the ERS for pension benefits. The System is required to contribute such additional amounts, as necessary, based on actuarial determinations, to provide assets sufficient to pay for member benefits. No employer contributions were required for the nine months ended September 30, 2016.

Rate of Return

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

Net Pension Asset

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

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

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

As of September 30, 2016, the System reported deferred outflows and inflows of resources related to pensions from the following sources:

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

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

Year Ending September 30,	Pension Expense
2017	\$ 718,050
2018	718,050
2019	706,392
2020	574,654
	\$ 2,717,146

Actuarial Assumptions

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

Actuarial Assumptions - continued

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

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

Discount Rate

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

Projected Cash Flows

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

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE G: DEFINED BENEFIT PENSION PLAN - CONTINUED

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

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

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

NOTE H: RISK MANAGEMENT

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

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

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

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

NOTE I: CONTINGENT LIABILITIES

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE J: OTHER POST-EMPLOYMENT BENEFITS

Plan Description

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

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

The actuarial report for the City of Kalamazoo does not provide membership in the plan by division. The retiree and beneficiary information below is the approximate number at December 31, 2015 (determined by the City):

Retirees and beneficiaries receiving benefits	29
Active plan members	<u>96</u>
	<u><u>125</u></u>

Funded Status and Funding Progress

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

Actuarial Methods and Assumptions

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

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

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE J: OTHER POST-EMPLOYMENT BENEFITS - CONTINUED

Actuarial Methods and Assumptions - continued

For the nine months ended September 30, 2016, the System's annual cost for other post-employment benefits (OPEB) was \$942,829. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2015, using the individual entry age method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) a 4.0% investment rate of return (b) projected salary increases of 4.0% per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0.0% to 7.0% per year depending on age, seniority and merit, (d) the healthcare cost trend inflation rate of 4.0% to 9.0%, and (e) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five (5) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years on a closed basis.

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

Annual required contribution (ARC)	\$ 470,658
Interest on net OPEB obligation	(266,730)
Adjustment to annual required contribution	<u>301,125</u>
Annual OPEB cost	505,053
Contributions made	<u>222,249</u>
(Decrease) in net OPEB asset	282,804
Net OPEB asset - beginning of year	<u>(3,556,406)</u>
Net OPEB asset - end of year	<u><u>\$ (3,273,602)</u></u>

The annual OPEB cost, the percentage contributed to the plan, and the net OPEB obligation for the periods ended September 30 and December 31, were as follows:

	12/31/2014	12/31/2015	9/30/2016
Annual OPEB cost	\$ 616,600	\$ 891,615	\$ 505,053
Percentage contributed	133.9%	492.9%	44.0%
Net OPEB obligation (asset)	(53,584)	(3,556,406)	(3,273,602)

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

	12/31/2011	12/31/2013	1/1/2016
Actuarial value of assets	\$ -	\$ 3,887,796	\$ 4,954,398
Actuarial accrued liability (AAL)	11,132,861	11,375,862	11,656,568
Unfunded AAL (UAAL)	11,132,861	7,488,066	6,702,170
Funded ratio	0%	34.2%	42.5%
Annual covered payroll	2,582,888	2,190,553	4,009,431
Ratio of UAAL to covered payroll	431.0%	341.8%	167.2%

City of Kalamazoo, Michigan
Metro Transit System

NOTES TO FINANCIAL STATEMENTS

September 30, 2016

NOTE K: PROPERTY TAX REVENUES

The System's property tax is levied in July on the State Equalized Valuation of property located in the City of Kalamazoo as of the preceding July. Real and personal property in the City for the current levy was assessed and equalized at approximately \$1.489 billion representing 50% of estimated current market value. For the nine months ended September 30, 2016, the System levied 0.0000 mills. The newly formed Central County Transportation Authority levied taxes and transferred a portion of the levy to the Metro Transit System for their operations.

NOTE L: COMPLIANCE REQUIREMENTS

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

Ineligible expenses are classified appropriately according to the definition in the Michigan Department of Transportation Local Public Transit Revenue and Expense Manual (R&E Manual). Audit costs are the only costs in which eligibility differs from the State R&E Manual and the Federal 2 CFR Part 225. 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 and other post-employment benefits include only amounts actually expensed on the books and paid with out-of-pocket money (e.g., not actuarial gains). All ineligible expenses, as required by OPT's R&E manual, have been reported.

NOTE M: TRANSFER OF OPERATIONS

The Kalamazoo Metro Transit System ceased operations on September 30, 2016. All operational and financial responsibility of the System were assumed by the Central County Transportation Authority (CCTA). Also, all assets and liabilities of the System were transferred over to the CCTA as of September 30, 2016. CCTA is a component unit of Kalamazoo County.

REQUIRED SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

DEFINED BENEFIT PENSION PLAN

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

Last Measurement Date
(Amounts were determined as of 12/31)

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

City of Kalamazoo, Michigan
Metro Transit System

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Last Fiscal Year
(Amounts were determined as of 12/31)

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

City of Kalamazoo, Michigan
Metro Transit System

DEFINED BENEFIT PENSION PLAN

SCHEDULE OF INVESTMENT RETURNS

Last Fiscal Year
(Amounts were determined as of 12/31)

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

City of Kalamazoo, Michigan
Metro Transit System

OTHER POST-EMPLOYMENT BENEFIT PLAN

Nine Months Ended September 30, 2016

SCHEDULE OF FUNDING PROGRESS

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Underfunded AAL (UAAL) (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
1/1/2016	\$ 4,954,398	\$ 11,656,568	\$ 6,702,170	42.5%	\$ 4,009,431	167.2%
12/31/2013	3,887,796	11,375,862	7,488,066	34.2%	2,190,553	341.8%
12/31/2011	-	11,132,861	11,132,861	0.0%	2,582,888	431.0%

SCHEDULE OF EMPLOYER CONTRIBUTIONS

Year Ended December 31,	Annual OPEB Cost	Percentage Contribution	Net OPEB (Asset) Obligation
2016	\$ 505,053	44.0%	\$ (3,273,602)
2015	891,615	493%	(3,556,406)
2014	616,600	134%	(53,584)

OTHER SUPPLEMENTARY INFORMATION

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF LOCAL REVENUES

Year Ended September 30, 2016

	<u>10/1/2015 to 12/31/2015</u>	<u>1/1/2016 to 9/30/2016</u>	<u>Total</u>
Passenger fares	\$ 622,057	\$ 1,783,951	\$ 2,406,008
Special transit	2,024	2,537	4,561
Other operating revenue	107,736	371,302	479,038
Taxes	(3,732)	110,592	106,860
Local operating assistance	821,550	4,148,573	4,970,123
Investment income	6,999	1,590	8,589
Gain on sale of capital assets	100	-	100
TOTAL LOCAL REVENUES	<u>\$ 1,556,734</u>	<u>\$ 6,418,545</u>	<u>\$ 7,975,279</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Nine Months Ended September 30, 2016

Federal and State Grantor/Pass-Through Grantor/Program Title	CFDA Number	Grant No./ Authorization Number	Program Award Amount	Current Period's Expenditures			Restated Prior Years' Expenditures	Award Amount Remaining
				Total	Federal	State		
U.S. DEPARTMENT OF TRANSPORTATION								
Direct programs:								
Federal Transit - Formula Grants	20.507							
Capital Grant - Section 5307(80/20)		MI-95-X054/2007-0239/Z20	\$ 129,210	\$ 19,977	\$ 17,388	\$ 2,589	\$ 109,233	\$ -0-
Capital Grant - Section 5307		MI-95-X073/2007-0239/Z23	167,266	17,703	17,703	-	145,137	4,426
Capital Grant - Section 5307(80/20)		MI-95-X080/2012-0112/P4	238,519	5,935	4,748	1,187	231,537	1,047
Capital Grant - Section 5307(80/20)		MI-90-X677/2012-0112/P8	2,256,406	56,272	45,017	11,255	865,089	1,335,045
Capital Grant - Section 5307(80/20)		MI-95-X102/2012-0112/P9	235,206	16,740	13,392	3,348	218,466	-0-
Capital Grant - Section 5307(80/20)		MI-95-X112/2012-0112/P9	602,461	555,541	444,433	111,108	-	46,920
Operating Grant - Section 5307		MI-90-X677-01	2,383,966	2,383,966	2,383,966	-	-	-0-
Enhanced Mobility of Seniors and Individuals With Disabilities	20.513							
Capital Grant - Section 5310 (80/20)		MI-16-X012-00/2012-0122/P16	214,071	51,684	41,347	10,337	-	162,387
Operating Grant - Section 5310		MI-16-X012-00/2012-0112/P16	391,426	22,864	18,291	4,573	71,703	296,859
Capital Grant - Section 5310 (80/20)		MI-16-X016-00/2016-0035/P1	185,047	-0-	-	-	-	185,047
Bus and Bus Facilities Formula Program	20.526							
Capital Grant - Section 5339 (80/20)		MI-34-0009-00	723,594	-0-	-	-	-	723,594
Passed through Michigan Department of Transportation Formula Grants for Rural Areas	20.509							
Operating Assistance - Section 5311 (FY 16)		MI-18-X055-04/2012-0112/P19	16,701	10,907	10,907	-	5,794	-0-
MICHIGAN DEPARTMENT OF TRANSPORTATION								
Operating Assistance - Act 51	N/A							
Operating Assistance (FY16)		N/A	4,522,652	3,074,610	-	3,074,610	1,047,604	400,438
Ridesharing Fellowship 2014-2015	N/A	N/A	115,582	20,557	-	20,557	32,714	62,311
Specialized Services 2015-2016	N/A	N/A	30,000	22,500	-	22,500	-	7,500
TOTALS			\$ 12,212,107	\$ 6,259,256	\$ 2,997,192	\$ 3,262,064	\$ 2,727,277	\$ 3,225,574
				(a)	(a)	(a)		

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Nine Months Ended September 30, 2016

(a) The following reconciles the total Federal and State revenues reported in the September 30, 2016, 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	\$ 2,997,192	\$ -	\$ 2,997,192
State	3,431,573	(169,509)	3,262,064
	\$ 6,428,765	\$ (169,509)	\$ 6,259,256

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF FEDERAL AND STATE AWARDS
OPERATING REVENUE ONLY

Year Ended September 30, 2016

	Restated 10/1/2015 to 12/31/2015	1/1/2016 to 9/30/2016	Total
State of Michigan Operating Grants			
Local Bus Operating Assistance (Act 51)	\$ 1,047,604	\$ 3,074,610	\$ 4,122,214
U.S. Department of Transportation - Section 5310	7,205	4,573	11,778
Ridesharing	14,775	20,557	35,332
Specialized Services	7,500	22,500	30,000
	<u>1,077,084</u>	<u>3,122,240</u>	<u>4,199,324</u>
Total State Operating Grants			
Federal Operating Grants			
U.S. Department of Transportation - Section 5307	495,000	2,383,966	2,878,966
U.S. Department of Transportation - Section 5311	5,794	10,907	16,701
U.S. Department of Transportation - Section 5310	64,498	18,291	82,789
	<u>565,292</u>	<u>2,413,164</u>	<u>2,978,456</u>
Total Federal Operating Grants			
TOTAL OPERATING GRANTS - STATE AND FEDERAL	<u>\$ 1,642,376</u>	<u>\$ 5,535,404</u>	<u>\$ 7,177,780</u>

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING AND CONTRACT EXPENSES

Nine Months Ended September 30, 2016

	<u>Urban</u>	<u>Nonurban</u>	<u>Specialized Services</u>	<u>Total</u>
Labor	\$ 3,019,930	\$ 747	\$ -	\$ 3,020,677
Fringe benefits	2,536,811	190	-	2,537,001
Services	1,363,816	2,733	-	1,366,549
Materials and supplies	1,151,065	990	-	1,152,055
Utilities	210,949	806	-	211,755
Insurance	168,683	276	-	168,959
Taxes and fees	1,006	-	-	1,006
Purchased services	2,409,042	46,852	22,500	2,478,394
Loss on disposal of assets	66,276	1,636	-	67,912
Miscellaneous	71,139	(1,807)	-	69,332
Interest on OPEB obligations	131,760	-	-	131,760
Depreciation	1,483,214	7,811	-	1,491,025
Total expenses	<u>\$ 12,613,691</u>	<u>\$ 60,234</u>	<u>\$ 22,500</u>	<u>\$ 12,696,425</u>

Note: The negative miscellaneous expense is due to the reclassification of certain items recognized in fiscal year 2015.

City of Kalamazoo, Michigan
Metro Transit System

SCHEDULE OF OPERATING EXPENSES BY PROGRAM

Year Ended September 30, 2016

	Urban			Nonurban		
	10/1/2015 to 12/31/2015	1/1/2016 to 9/30/2016	Total	10/1/2015 to 12/31/2015	1/1/2016 to 9/30/2016	Total
Labor	\$ 1,104,904	\$ 3,019,930	\$ 4,124,834	\$ 901	\$ 747	\$ 1,648
Fringe benefits	1,171,612	2,536,811	3,708,423	1,070	190	1,260
Services	428,966	1,363,816	1,792,782	4,490	2,733	7,223
Materials and supplies	449,071	1,151,065	1,600,136	421	990	1,411
Utilities	74,672	210,949	285,621	890	806	1,696
Insurance	94,566	168,683	263,249	226	276	502
Taxes and fees	261	1,006	1,267	-	-	-0-
Purchased services	730,750	2,409,042	3,139,792	30,685	46,852	77,537
Loss on disposal of assets	-	66,276	66,276	-	1,636	1,636
Miscellaneous	45,643	71,139	116,774	2,311	(1,807)	504
Interest on long-term debt	102,852	131,760	234,612	-	-	-0-
Depreciation	594,612	1,483,214	2,077,826	8,663	7,811	16,474
Total expenses	\$ 4,797,909	\$ 12,613,691	\$ 17,411,592	\$ 49,657	\$ 60,234	\$ 109,891

Note: Interest of long-term debt is related to interest on the 2015 OPEB bonds and is reflected in the accompanying OAR expense reports as fringe benefits expense in accordance with the FY 2016 Local Public Transit Revenue and Expense Manual. Also, \$113,931 reported in the October-December 2015 column was moved from miscellaneous to material and supplies.

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4R
URBAN REGULAR SERVICE REVENUE REPORT

Year Ended September 30, 2016

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 2,348,044
406	Auxiliary trans revenues	
40615	Advertising	51,403
40620	Intercity ticket sales	69,428
407	Nontrans revenues	
40720	Rental of buildings or other property	162,474
40725	Parking lot revenue	623
40760	Gain from sale of capital assets	98
40799	Other nontransportation revenue	186,409
408	Local revenue	
40800	Taxes levied directly for/by transit agency	104,284
409	Local revenue	
40910	Local operating assistance	4,823,176
40999	Other local contracts and reimbursements	4,451
411	State formula and contracts	
41101-U	State operating assistance (Urban)	4,089,934
41114	Other capital contract reimbursement for operating expense	11,128
41199	Other MDOT/OPT contracts and reimbursement	34,481
413	Federal contracts	
41302	Federal Section 5307 operating	2,878,966
41314	Other capital contract reimbursement for operating expense	16,408
41399	Other federal transit contracts and reimbursements	85,257
414	Other revenue	
41400	Interest income	<u>8,382</u>
	TOTAL URBAN SERVICE REVENUE	<u><u>\$ 14,874,946</u></u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
URBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2016

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50101	Operators' salaries and wages	\$ 2,557,819	\$ -	\$ -	\$ 2,557,819
50102	Other salaries and wages	154,030	801,265	345,149	1,300,444
50103	Dispatchers' salaries and wages	266,571	-	-	266,571
502	Fringe benefits				
50200	Fringe benefits	1,826,687	600,744	279,786	2,707,217
50210	DC pensions	22,196	6,069	5,211	33,476
50220	DB pensions	-	-	389,643	389,643
50230	Other post-employment benefits	38,552	20,460	753,687	812,699
503	Services				
50302	Advertising fees	-	-	31,491	31,491
50305	Audit cost	-	-	8,932	8,932
50399	Other services	439,552	138,185	1,174,622	1,752,359
504	Materials and supplies				
50401	Fuel and lubricants	584,733	4,025	491	589,249
50402	Tires and tubes	83,691	-	-	83,691
50499	Other materials and supplies	63,895	617,579	245,722	927,196
505	Utilities				
50500	Utilities	103,127	486	182,008	285,621
506	Insurance				
50603	Liability insurance	200,691	-	-	200,691
50699	Other insurance	-	-	62,558	62,558
507	Taxes and fees				
50700	Taxes and fees	1,000	267	-	1,267
508	Purchased trans service				
50800	Purchased trans service	3,139,792	-	-	3,139,792
509	Miscellaneous expenses				
50902	Travel, meetings, and training	1,815	4,751	5,353	11,919
50903	Association dues and subscriptions	-	-	48,012	48,012
50909	Loss on disposal of assets	-	-	66,276	66,276
50999	Other miscellaneous expenses	-	-	56,843	56,843
513	Depreciation				
51300	Depreciation	-	-	2,077,826	2,077,826
550	Ineligible expenses				
55004	Other ineligible state contracts	-	-	25,927	25,927
55007	Ineligible depreciation	-	-	2,056,336	2,056,336
55009	Ineligible percent of association dues	-	-	10,643	10,643
560	Ineligible expenses				
56002	Ineligible expenses associated w/advertising	51,403	-	-	51,403
56004	Ineligible expenses associated w/rentals	-	-	162,474	162,474
570	Ineligible expenses				
57603	Ineligible administrative expenses paid by capital contract	-	-	217,402	217,402
57099	Other ineligible Federal/State/Local	-	-	45,998	45,998
580	Ineligible expenses				
58009	Ineligible loss on disposal of assets	-	-	66,276	66,276
58020	Ineligible defined benefit pension	-	-	389,643	389,643
58030	Ineligible other post-employment benefits	-	-	282,804	282,804
			Total expenses		17,411,592
				Total ineligible expenses	3,308,906
				Total eligible expenses	<u>\$ 14,102,686</u>

City of Kalamazoo, Michigan
Metro Transit System

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

Year Ended September 30, 2016

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	2,648,675	302,586	27,663	2,978,924

⁽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, 2016

Code	Description	Amount
401	Farebox revenue	
40100	Passenger fares	\$ 57,964
406	Auxiliary trans revenues	
40620	Intercity ticket sales	1,715
407	Nontrans revenues	
40760	Gain from sale of capital assets	2
40799	Other nontransportation revenue	6,986
408	Local revenue	
40800	Taxes levied directly for/by transit agency	2,576
409	Local revenue	
40910	Local operating assistance	118,618
40999	Other local contracts and reimbursements	110
411	State formula and contracts	
41100	State operating assistance	32,280
41114	Other capital contract reimbursement for operating expenses	275
41199	Other MDOT/OPT contracts and reimbursement	851
413	Federal contracts	
41301	Federal Section 5311	16,701
41314	Other capital contract reimbursement for operating expense	405
41399	Other federal transit contracts and reimbursements	2,105
414	Other revenue	
41400	Interest income	207
	TOTAL NONURBAN SERVICE REVENUE	<u>\$ 240,795</u>

City of Kalamazoo, Michigan
Metro Transit System

OAR SCHEDULE 4E
NONURBAN REGULAR SERVICE EXPENSE REPORT

Year Ended September 30, 2016

Code	Description	Operations	Maintenance	Administrative	Total
501	Labor				
50102	Other salaries and wages	\$ 1,648	\$ -	\$ -	\$ 1,648
502	Fringe benefits				
50200	Fringe benefits	1,223	-	-	1,223
50210	DC pensions	30	-	-	30
50220	Other post-employment benefits	7	-	-	7
503	Services				
50302	Advertising fees	-	-	118	118
50305	Audit cost	-	-	68	68
50399	Other services	478	-	6,559	7,037
504	Materials and supplies				
50401	Fuel and lubricants	349	-	2	351
50499	Other materials and supplies	204	-	856	1,060
505	Utilities				
50500	Utilities	243	-	1,453	1,696
506	Insurance				
50699	Other insurance	-	-	502	502
508	Purchased trans service				
50800	Purchased trans service	77,537	-	-	77,537
509	Miscellaneous expenses				
50903	Association dues and subscriptions	-	-	97	97
50909	Loss on disposal of assets	-	-	1,636	1,636
50999	Other miscellaneous expenses	-	-	407	407
513	Depreciation				
51300	Depreciation	-	-	16,474	16,474
550	Ineligible expenses				
55007	Ineligible depreciation	-	-	16,301	16,301
55009	Ineligible percent of association dues	-	-	81	81
570	Ineligible expenses				
57603	Ineligible administrative expenses paid by capital contract	-	-	1,595	1,595
580	Ineligible expenses				
58009	Ineligible loss on disposal of assets	-	-	1,636	1,636
				Total expenses	109,891
				Total ineligible expenses	19,613
				Total eligible expenses	<u>\$ 90,278</u>

City of Kalamazoo, Michigan
Metro Transit System

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

Year Ended September 30, 2016

<u>Code</u>	<u>Description</u>	<u>Weekday</u>	<u>Saturday</u>	<u>Sunday</u>	<u>Total</u>
611	Vehicle Miles ⁽¹⁾	33,416	1,733	534	35,683

⁽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, 2016

	Urban	Nonurban
Total expenses	\$ 17,411,592	\$ 109,891
Less ineligible expenses		
Other ineligible State contracts	25,927	-
Ineligible depreciation	2,056,336	16,301
Ineligible percent of association dues	10,643	81
Ineligible expenses associated w/advertising	51,403	-
Ineligible expenses associated w/rentals	162,474	-
Other ineligible operating expenses paid by capital contract	217,402	1,595
Other ineligible Federal/State/Local	45,998	-
Ineligible defined benefit pension	389,643	-
Ineligible other post-employment benefits	282,804	-
Ineligible loss on disposal of assets	66,276	1,636
	3,308,906	19,613
Total ineligible expenses per R&E manual		
	3,308,906	19,613
TOTAL STATE AND FEDERAL ELIGIBLE EXPENSES	\$ 14,102,686	\$ 90,278
Eligible expenses for State reimbursement	\$ 14,102,686	\$ 90,278
x Reimbursement percentage	29.0011%	35.7560%
State operating assistance	\$ 4,089,934	\$ 32,280
Eligible expenses for Federal reimbursement		\$ 90,278
x Reimbursement percentage	N/A	18.50%
Federal operating assistance	\$ 2,878,966	\$ 16,701

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

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

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the City of Kalamazoo, Michigan, Metro Transit System (the System), a component unit of the City of Kalamazoo, Michigan, as of and for the nine months ended September 30, 2016, and the related notes to the financial statements, which collectively comprise the System's basic financial statements, and have issued our report thereon dated June 28, 2017.

Internal Control Over Financial Reporting

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

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

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

Compliance and Other Matters

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

Purpose of this Report

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

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

June 28, 2017