

**KALAMAZOO AREA TRANSPORTATION STUDY
Kalamazoo, Michigan**

**Financial Statements
September 30, 2007**

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other				Local Unit Name KALAMAZOO AREA TRANSPORTATION S KALAMAZOO	
Fiscal Year End 09/30/07		Opinion Date 11/16/07		Date Audit Report Submitted to State 03/25/08	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|--|--------------------------------|--|
| YES
<input checked="" type="checkbox"/> | NO
<input type="checkbox"/> | Check each applicable box below. (See instructions for further detail.) |
|--|--------------------------------|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	<input checked="" type="checkbox"/>	
The letter of Comments and Recommendations	<input type="checkbox"/>	
Other (Describe)	<input checked="" type="checkbox"/>	COMMUNICATION WITH POLICY COMMITTEE
Certified Public Accountant (Firm Name) GARDNER, PROVENZANO, SCHAUMAN & THOMAS, P.C.		Telephone Number 989-790-3900
Street Address 4855 STATE STREET		City SAGINAW
		State MI
		Zip 48603
Authorizing CPA Signature 	Printed Name FREDERICK C. GARDNER, C.P.A.	
		License Number 3200-86465R

Table of Contents

	<u>Page Number</u>
Independent Auditor's Report	
Management's Discussion and Analysis	1
Statements of Fund Net Assets	5
Statements of Revenues, Expenses, and Changes in Fund Net Assets	6
Statements of Cash Flows	7
Notes to Financial Statements	8
Supplementary Information	14
Schedules of Expenses by Funding Sources - Budget and Actual	15
Schedule of Budgeted and Actual Costs	19
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	20



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

INDEPENDENT AUDITOR'S REPORT

November 16, 2007

To The Policy Committee
Kalamazoo Area Transportation Study
Kalamazoo, Michigan

We have audited the accompanying financial statements of the business type activities of the Kalamazoo Area Transportation Study as of and for the years ended September 30, 2007 and 2006, which comprise the organization's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Kalamazoo Area Transportation Study's management. 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 of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business type activities of the Kalamazoo Area Transportation Study as of September 30, 2007 and 2006, and the changes in its financial position and cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

To The Policy Committee
Kalamazoo Area Transportation Study
Kalamazoo, Michigan
November 16, 2007
Page Two

The management's discussion and analysis on pages 1 through 4 is not a required part of the basic financial statements, but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with Government Auditing Standards, we have also issued our report dated November 16, 2007, on our consideration of the Kalamazoo Area Transportation Study's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Our audit was performed for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying schedules included on pages 15 through 19 are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the financial statements taken as whole.

Barker, Pronow, Schauman & Thomas
Certified Public Accountants

MANAGEMENT'S DISCUSSION & ANALYSIS

KALAMAZOO AREA TRANSPORTATION STUDY
MANAGEMENT'S DISCUSSION AND ANALYSIS

I. General Description of Basic Financial Statements

The Kalamazoo Area Transportation Study (KATS) is the Metropolitan Planning Organization (MPO) for Kalamazoo County. As the MPO, KATS prepares a 20 year Transportation Plan, a Transportation Improvement Program, and assigns federal surface transportation program funds available to Kalamazoo County to various eligible road and public transportation projects. Funding for KATS is provided for on a reimbursement basis of expenses incurred on its programs. Other local agencies match a certain amount to complete the program by contributing in-kind effort. A policy committee that consists of several representatives from local governmental agencies governs KATS.

For accounting purposes, KATS uses only one fund. The fund is a business type enterprise fund that applies the full accrual basis of accounting. Hence, unlike most governmental units, KATS reports its financial information only in the full accrual format. The audited financial activities of KATS are presented herein. These statements include:

Statements of Fund Net Assets
Statements of Revenues, Expenses, and Changes in Fund Net Assets
Statements of Cash Flows

Along with the financial statements are the footnote disclosures and supplementary information.

II. Condensed Financial Statements and Analysis and Discussion of Significant Transactions

Table One – Net Assets

	<u>2007</u>	<u>2006</u>
ASSETS		
Current assets	\$ 188,603	\$ 284,067
Capital assets	193	580
Total Assets	<u>\$ 188,796</u>	<u>\$ 284,647</u>
LIABILITIES		
Current liabilities	<u>\$ 62,513</u>	<u>\$ 168,359</u>
Total Liabilities	<u>\$ 62,513</u>	<u>\$ 168,359</u>
NET ASSETS		
Invested in capital assets, net of related debt	\$ 193	\$ 580
Unrestricted	126,090	115,708
Total Net Assets	<u>\$ 126,283</u>	<u>\$ 116,288</u>

KALAMAZOO AREA TRANSPORTATION STUDY
MANAGEMENT'S DISCUSSION AND ANALYSIS

II. Condensed Financial Statements and Analysis and Discussion of Significant Transactions (cont.)

Table Two – Changes in Net Assets

	<u>2007</u>	<u>2006</u>
REVENUES		
Federal and State grants	\$ 285,232	\$ 283,940
Local unit contributions (in-kind)	176,368	180,977
Interest income and other	33,084	5,171
Total Revenues	<u>494,684</u>	<u>470,088</u>
EXPENSES		
Reimbursed program expenses	285,232	283,941
Contributed effort (in-kind)	176,368	180,977
Other	23,089	8,556
Total Expenses	<u>484,689</u>	<u>473,474</u>
Change in Net Assets	<u>\$ 9,995</u>	<u>\$ (3,386)</u>

Table Three – Cash Flows

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,995	\$ (3,386)
Adjustments to reconcile change in net assets to net cash provided by activities		
Depreciation	387	1,995
(Increase) decrease in:		
Current assets	(61,415)	(12,579)
Decrease (increase) in:		
Current liabilities	(105,846)	86,734
Net Cash Provided (Used) By Operating Activities	<u>(156,879)</u>	<u>72,764</u>
Cash (due from KCRC), beginning of year	203,869	131,105
Cash (due from KCRC), end of year	<u>\$ 46,990</u>	<u>\$ 203,869</u>

Current assets and current liabilities were lower than last year due to KATS receiving \$82,540 for a route study on behalf of City of Kalamazoo Metro Transit that was not disbursed until October 2006. In addition, \$30,000 of advances from local units has been forgiven in the current year.

KALAMAZOO AREA TRANSPORTATION STUDY
MANAGEMENT'S DISCUSSION AND ANALYSIS

II. Condensed Financial Statements and Analysis and Discussion of Significant Transactions (cont.)

Overall, the financial position of KATS increased by \$24,528, as measured by the change in net assets. Current year revenues increased by \$24,596, compared to the prior year. Federal and State grant revenue was up by \$1,292, due to more reimbursable costs being incurred associated with these programs. Local unit in-kind contributions were down by \$4,609, due to a decrease in local effort applied to the projects. Interest income and other revenues were up by \$27,913, due to the forgiveness of \$30,000 in advances from local units. Current year expenses decreased by \$1,318, compared to the prior year due to less reimbursable costs associated with grants and other reimbursements being incurred and less in-kind cost effort being contributed by the local agencies.

The excess of interest and other income over non-reimbursable audit fees caused the increase in net assets of \$24,528. The audit fees are not allowable as a reimbursable item due to the fact that the organization's total federal expenditures are below the \$500,000 threshold requiring a federal single audit.

III. Budget Process

The KATS budget is prepared annually and is contained in the Unified Work Program (UWP) adopted by the Policy Committee and approved by MDOT and the Federal Highway Administration (FHWA). This budget identifies the areas of planning work anticipated to be addressed in the year with estimates of time and resources needed for that work. FHWA, FTA, MDOT, and local agency staffs have input into the budget process so that areas of emphasis can be included. As with any estimate, the areas of planning work may actually demand more or less resources than estimated. If the anticipated changes are significant, the UWP is amended.

The estimated cost rates for wages, fringes, and indirect costs are used for billing reimbursements of program expenses. At the end of the year, actual costs incurred are determined and a final bill adjusting reimbursements to actual is submitted.

The actual costs incurred by KATS along with local matching contributed costs and the amended budget for the fiscal year displayed by grant and work element are included on pages 15 through 18. A comparison of final amended budget to actual displayed by natural expense category is included on page 19. Actual expenses were less than budgeted. The primary reason for this is due to conservative budgeting estimates.

KALAMAZOO AREA TRANSPORTATION STUDY
MANAGEMENT'S DISCUSSION AND ANALYSIS

IV. Capital Assets and Long-Term Debt

Following is a summary of capital assets and accumulated depreciation.

	<u>2007</u>	<u>2006</u>
Equipment and furniture	\$ 18,790	\$ 18,790
Accumulated depreciation	<u>(18,597)</u>	<u>(18,210)</u>
Capital Assets Net of Accumulated Depreciation	<u>\$ 193</u>	<u>\$ 580</u>

The capital assets of KATS consist of office furniture and equipment. KATS has implemented a capitalization policy consistent with MDOT and FHWA that requires all items purchased having a useful life in excess of one year and costing more than \$5,000 must be capitalized and depreciated rather than being directly expensed. Currently, there are no plans for future capital asset purchases.

KATS does not have any long-term debt.

V. Currently Known Facts, Decisions, or Conditions Expected to Have a Significant Effect

In the past, KATS had the ability to be reimbursed through Federal programs for all allowable costs incurred with administering its grants and programs. Going forward, management does not believe that total program costs will exceed the \$500,000 threshold that would allow for audit fees to be a Federal program reimbursable item. An agreement has been reached to split the non-reimbursable audit costs of KATS between the City of Kalamazoo, City of Portage, the Kalamazoo County Road Commission and Kalamazoo Metro Transit for the audit costs paid in the fiscal 07-08 year and future years.

KALAMAZOO AREA TRANSPORTATION STUDY
 STATEMENTS OF FUND NET ASSETS
 SEPTEMBER 30, 2007 AND 2006

	2007	2006
ASSETS		
Due from Kalamazoo County Road Commission	\$ 46,990	\$ 203,869
Contracts receivable	-	3,702
Due from Grantors	137,392	74,641
Prepaid expense	4,221	1,855
Equipment and furniture	18,790	18,790
Accumulated depreciation	(18,597)	(18,210)
Total Assets	\$ 188,796	\$ 284,647
LIABILITIES		
Accounts payable	\$ 8,807	\$ 86,621
Due to Grantors	2,386	1,881
Due to local agencies - MTF	4,871	2,442
Compensated absences	31,449	32,415
Advances from local units	15,000	45,000
Total Liabilities	62,513	168,359
NET ASSETS		
Invested in capital assets, net of related debt	193	580
Unrestricted	126,090	115,708
Total Net Assets	126,283	116,288
Total Liabilities And Net Assets	\$ 188,796	\$ 284,647

See accompanying notes to financial statements.

KALAMAZOO AREA TRANSPORTATION STUDY
 STATEMENTS OF REVENUES, EXPENSES, AND
 CHANGES IN FUND NET ASSETS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
REVENUES		
Federal grants	\$ 273,513	\$ 266,920
State grants	11,719	17,020
Local unit contributions (in-kind)	176,368	180,977
Interest income	3,084	4,709
Other	30,000	462
Total Revenues	<u>494,684</u>	<u>470,088</u>
EXPENSES		
Program development, management, and coordination	113,653	97,550
System surveillance and monitoring	61,054	53,787
Transportation management systems	54,480	63,693
Transportation systems planning and special studies	232,413	249,888
Other	23,089	8,556
Total Expenses	<u>484,689</u>	<u>473,474</u>
Change in Net Assets	9,995	(3,386)
Net Assets, beginning	116,288	119,674
Net Assets, ending	<u>\$ 126,283</u>	<u>\$ 116,288</u>

See accompanying notes to financial statements.

KALAMAZOO AREA TRANSPORTATION STUDY
 STATEMENTS OF CASH FLOWS
 FOR THE YEAR ENDED SEPTEMBER 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
Cash flows from operating activities:		
Change in net assets	\$ 9,995	\$ (3,386)
Adjustments to reconcile change in net assets to net cash provided by activities		
Depreciation	387	1,995
 (Increase) decrease in:		
Due from grantors	(59,049)	(12,619)
Prepaid expense	(2,366)	40
 Decrease (increase) in:		
Accrued expenses	(77,814)	81,930
Due to Grantors	505	(462)
Due to local agencies - MTF	2,429	(1,321)
Compensated absences	(966)	6,587
Advances from local units	(30,000)	-
Net Cash Provided (Used) By Operating Activities	<u>(156,879)</u>	<u>72,764</u>
 Cash (due from Kalamazoo County Road Commission), beginning of year	203,869	131,105
 Cash (due from Kalamazoo County Road Commission), end of year	<u>\$ 46,990</u>	<u>\$ 203,869</u>

See accompanying notes to financial statements.

KALAMAZOO AREA TRANSPORTATION STUDY
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Principles

These financial statements present principally the transactions of the Kalamazoo Area Transportation Study (the Study), which accounts for the use of annually renewable federal and state transportation planning grants.

In accordance with United States of America generally accepted accounting principles and Government Accounting Standards Board Statement (GASB) No. 14, The Financial Reporting Entity, these financial statements represent the Kalamazoo Area Transportation Study. The criteria established by the GASB for determining the reporting entity include oversight responsibility, fiscal dependency, and whether the financial statements would be misleading if data were not included. The Kalamazoo Area Transportation Study has determined that no outside agency meets the above criteria and, therefore, no outside agency has been included as a blended or discretely presented component unit in these financial statements.

Basis of Accounting

The Study is considered to be a proprietary fund type and as such prepares its financial statements on the full accrual basis of accounting. Costs are recognized in the period in which they are incurred. Revenues are recognized in the period when they are earned or in the period in which the expenditures financed by the revenue are incurred.

Capital Assets and Depreciation

Capital assets purchased or acquired with an original cost of \$5,000 or more are recorded at cost and depreciated over the estimated useful life of the asset. Maintenance and repairs are expensed when incurred.

KALAMAZOO AREA TRANSPORTATION STUDY
NOTES TO FINANCIAL STATEMENTS

NOTE 1--Summary of Significant Accounting Principles (continued)

Due From Kalamazoo County Road Commission

The balance shown as due from the Kalamazoo County Road Commission represents cash held on behalf of the Kalamazoo Area Transportation Study.

For the purposes of the presentation of the statement of cash flows, the balance due from the Kalamazoo County Road Commission is considered to be equivalent to cash.

Advances From Local Units

Advances from local units represent long-term advances made to the Study for which no terms of repayment have been established.

Cost Allocation for Grant Billing

The Study's policy for allocating costs between common task items (program management and development) is to allocate two thirds of the cost to Section 112 and one third to Section 8.

Reimbursable Audit Costs

The Federal programs through which the Study operates allow for audit fees to be reimbursed if Federal expenditures exceed \$500,000. The Study's Federal expenditures did not exceed \$500,000 for the fiscal year ending September 30, 2007, nor are they expected to in the near future and are therefore not reimbursable through the Federal programs. To offset the cost of audit fees, the City of Kalamazoo, City of Portage, the Kalamazoo County Road Commission and the Kalamazoo Metro Transit have agreed to reimburse the Study for fees incurred for the audits of fiscal year ending September 30, 2007 and beyond.

KALAMAZOO AREA TRANSPORTATION STUDY
NOTES TO FINANCIAL STATEMENTS

NOTE 2--Amounts Due From/To Grantors

Amounts due from/to grantors consist of the following:

Grant	2007		2006	
	Due From	Due To	Due From	Due To
Federal				
FHWA Section 112	\$ 94,795	\$ -	\$ 34,556	\$ -
FTA Section 8	28,448	-	20,623	-
State				
MTF	14,149	2,386	19,462	1,881
Totals	<u>\$ 137,392</u>	<u>\$ 2,386</u>	<u>\$ 74,641</u>	<u>\$ 1,881</u>

NOTE 3--Functional Allocation of Costs

The costs of providing the various programs have been summarized on a functional basis. Accordingly, certain costs (fringe benefits and indirect costs) have been allocated to the programs based on labor costs. The following schedule presents total expenses provided by the Study and other agencies. All agencies report labor and direct costs to the Study. Only the Study is allowed to charge fringe benefits and indirect costs.

	2007			2006		
	Grant Costs Submitted	Additional Project Effort	Total	Grant Costs Submitted	Additional Project Effort	Total
Kalamazoo Area Transportation Study	\$ 293,789	\$ -	\$ 293,789	\$ 292,496	\$ -	\$ 292,496
Kalamazoo County Road Commission	25,064	26,373	51,437	22,173	26,951	49,124
City of Kalamazoo	38,035	82,767	120,802	50,010	76,992	127,002
City of Portage	1,342	987	2,329	1,743	2,093	3,836
County of Kalamazoo and other agencies	804	995	1,799	453	563	1,016
	<u>\$ 359,034</u>	<u>\$ 111,122</u>	<u>\$ 470,156</u>	<u>\$ 366,875</u>	<u>\$ 106,599</u>	<u>\$ 473,474</u>

NOTE 4--Defined Benefit Pension Plan

Plan Description

The Study's defined benefit pension plan provides retirement, disability and death benefits to plan members and beneficiaries. The Study participates in the Kalamazoo County Employees Retirement System, a Public Employee Retirement System which is an agent multiple-employer plan administered by the

KALAMAZOO AREA TRANSPORTATION STUDY
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Defined Benefit Pension Plan (continued)

Kalamazoo County Employees Retirement System. The Kalamazoo County Board of Commissioners establishes and amends the benefit provisions of the participants in the plan. The Kalamazoo County Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the plan. The report may be obtained by writing to the Kalamazoo County Employees Retirement System, 201 W. Kalamazoo Avenue, Kalamazoo, Michigan 49007 or by calling 269-384-8111.

Funding Policy

The Study is required to contribute at an actuarially determined rate; the current rate is 0.00% of covered payroll. Employees are currently not required to contribute to the plan. The contribution requirements are established by the Kalamazoo County Employees Retirement System. The contribution requirements of plan members, if any, are established and may be amended by the Study depending on the plan's contribution program.

Annual Pension Cost

For the year ended September 30, 2007, the Study's annual pension cost of \$0 for the plan approximated the Study's required and actual contributions. The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 7.75% and (b) projected salary increased of 4.5% to 10.8% per year compounded annually, attributable to inflation. The actuarial value of the plan

KALAMAZOO AREA TRANSPORTATION STUDY
NOTES TO FINANCIAL STATEMENTS

NOTE 4--Defined Benefit Pension Plan (continued)

Annual Pension Cost (continued)

assets was determined on the basis of a market value method with five years smoothing. The amortization method is level percent of payroll, closed period.

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12-31-04	\$ 233,231	101.40%	\$ -
12-31-05	\$ 45,570	88.90%	\$ -
12-31-06	\$ -	100.00%	\$ -

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets {a}	Actuarial Accrued Liability Entry Age {b}	Unfunded AAL (UAAL) {b-a}	Funded Ratio {a/b}	Covered Payroll {c}	UAAL as a % of Covered Payroll {b-a}/{c}
12-31-04	\$ 17,756,629	\$ 13,864,504	\$ (3,892,125)	128.10%	\$ 2,963,219	-131.30%
12-31-05	\$ 18,705,616	\$ 14,226,638	\$ (4,478,978)	131.50%	\$ 3,082,788	-145.30%
12-31-06	\$ 19,982,947	\$ 14,229,642	\$ (5,753,305)	140.40%	\$ 3,073,779	-187.20%

NOTE 5--Contingent Liability for Interest on Advances

The Study received advances for operating purposes in the amount of \$45,000, of which \$15,000 remains outstanding due to the Kalamazoo County Road Commission. The agreements providing the advances (dated 12/09/1982) state that interest earned by the Study on these advances shall be distributed to the contributing agencies. Since inception, to the best of management's knowledge, no interest earned on the advances has been paid to the contributing agencies. The estimated amount of interest earned on the advances has not been determined. Management is currently negotiating the elimination of the remaining outstanding advance along with any contingent interest due.

KALAMAZOO AREA TRANSPORTATION STUDY
NOTES TO FINANCIAL STATEMENTS

NOTE 6--Contingent Liability for Federal and State Grants

The Study has received significant financial assistance from state agencies in the form of various grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreement and is subject to audit by the grantor agency. Any disallowed claims resulting from such audits could become a liability of the Study.

SUPPLEMENTARY INFORMATION

KALAMAZOO AREA TRANSPORTATION STUDY
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007

All Grants Combined

	<u>KATS</u>	<u>Local Match</u>	<u>Project Effort</u>	<u>Supplemental Local Project Effort</u>	<u>Total Effort</u>	<u>Budget</u>
Program Management and Development						
Program Management and Administration	\$ 46,877	\$ -	\$ 46,877	\$ -	\$ 46,877	\$ 45,000
Unified Work Program	9,453	-	9,453	-	9,453	20,000
Transportation Improvement Program	29,270	1,722	30,992	2,576	33,568	23,000
Public Involvement Process	13,330	4,178	17,508	6,247	23,755	29,000
System Surveillance and Monitoring						
Demographic Data Surveillance	5,820	-	5,820	-	5,820	10,000
Highway System Surveillance	3,935	9,798	13,733	10,579	24,312	18,000
Transit System Surveillance	-	7,123	7,123	23,799	30,922	800
Management Systems						
Pavement Management System	166	808	974	872	1,846	28,500
Asset Management	11,719	2,430	14,149	-	14,149	20,000
Bridge Management System	-	1,597	1,597	1,724	3,321	5,500
Safety Management System	21,616	2,365	23,981	2,554	26,535	41,500
UD-10 Coding System	5,761	351	6,112	380	6,492	16,000
Congestion Management System	1,219	361	1,580	389	1,969	16,500
Public Transportation Management System	84	-	84	-	84	200
Intermodal Management System	84	-	84	-	84	6,392
Systems Planning and Analysis						
Transportation Plan	121,031	1,201	122,232	1,799	124,031	106,430
Transit System Analysis	11,328	10,718	22,046	35,807	57,853	94,170
Highway System Analysis	83	15,647	15,730	16,896	32,626	12,000
Special Studies	-	4,054	4,054	4,377	8,431	14,000
Traffic Impact/Access Management	334	331	665	357	1,022	22,370
Air Quality	3,123	2,561	5,684	2,766	8,450	15,000
Subtotals	<u>285,233</u>	<u>65,245</u>	<u>350,478</u>	<u>111,122</u>	<u>461,600</u>	<u>544,362</u>
Cash Match						
Traffic Impact/Access Management	-	-	-	-	-	3,630
FY 06 Audit cost	8,556	-	8,556	-	8,556	-
Subtotals	<u>8,556</u>	<u>-</u>	<u>8,556</u>	<u>-</u>	<u>8,556</u>	<u>3,630</u>
Totals	<u>\$ 293,789</u>	<u>\$ 65,245</u>	<u>\$ 359,034</u>	<u>\$ 111,122</u>	<u>\$ 470,156</u>	<u>\$ 547,992</u>

KALAMAZOO AREA TRANSPORTATION STUDY
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Grant - FHWA Section 112, 88090
(81.85%, 18.15%)

	<u>KATS</u>	<u>Local Match</u>	<u>Project Effort</u>	<u>Supplemental Local Project Effort</u>	<u>Total Effort</u>	<u>Budget</u>
Program Management and Development						
Program Management and Administration	\$ 33,040	\$ -	\$ 33,040	\$ -	\$ 33,040	\$ 31,500
Unified Work Program	6,617	-	6,617	-	6,617	14,000
Transportation Improvement Program	20,489	1,405	21,894	1,518	23,412	16,100
Public Involvement Process	9,331	3,409	12,740	3,680	16,420	20,300
System Surveillance and Monitoring						
Demographic Data Surveillance	5,820	-	5,820	-	5,820	10,000
Highway System Surveillance	3,935	9,798	13,733	10,579	24,312	18,000
Management Systems						
Pavement Management System	166	808	974	872	1,846	28,500
Bridge Management System	-	1,597	1,597	1,724	3,321	5,500
Safety Management System	21,616	2,365	23,981	2,554	26,535	41,500
UD-10 Coding System	5,761	351	6,112	380	6,492	16,000
Congestion Management System	1,219	361	1,580	389	1,969	16,500
Intermodal Management System	84	-	84	-	84	6,392
Systems Planning and Analysis						
Transportation Plan	85,303	979	86,282	1,058	87,340	75,010
Highway System Analysis	83	15,647	15,730	16,896	32,626	12,000
Special Studies	-	4,054	4,054	4,377	8,431	14,000
Traffic Impact/Access Management	334	331	665	357	1,022	22,370
Air Quality	3,123	2,561	5,684	2,766	8,450	15,000
Subtotals	<u>196,921</u>	<u>43,666</u>	<u>240,587</u>	<u>47,150</u>	<u>287,737</u>	<u>362,672</u>
Cash Match						
Traffic Impact/Access Management	-	-	-	-	-	3,630
Subtotals	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>3,630</u>
Totals	<u>\$ 196,921</u>	<u>\$ 43,666</u>	<u>\$ 240,587</u>	<u>\$ 47,150</u>	<u>\$ 287,737</u>	<u>\$ 366,302</u>

KALAMAZOO AREA TRANSPORTATION STUDY
SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL
FOR THE YEAR ENDED SEPTEMBER 30, 2007

Grant - FTA Section 8, 5303 88100
(80%, 20%)

	<u>KATS</u>	<u>Local Match</u>	<u>Project Effort</u>	<u>Supplemental Local Project Effort</u>	<u>Total Effort</u>	<u>Budget</u>
Program Management and Development						
Program Management and Administration	\$ 13,837	\$ -	\$ 13,837	\$ -	\$ 13,837	\$ 13,500
Unified Work Program	2,836	-	2,836	-	2,836	6,000
Transportation Improvement Program	8,781	317	9,098	1,058	10,156	6,900
Public Involvement Process	3,999	769	4,768	2,567	7,335	8,700
System Surveillance and Monitoring						
Transit System Surveillance	-	7,123	7,123	23,799	30,922	800
Management Systems						
Public Transportation Management System	84	-	84	-	84	200
Systems Planning and Analysis						
Transportation Plan	35,728	222	35,950	741	36,691	31,420
Transit System Analysis	11,328	10,718	22,046	35,807	57,853	94,170
Totals	<u>\$ 76,593</u>	<u>\$ 19,149</u>	<u>\$ 95,742</u>	<u>\$ 63,972</u>	<u>\$ 159,714</u>	<u>\$ 161,690</u>

KALAMAZOO AREA TRANSPORTATION STUDY
 SCHEDULE OF EXPENSES BY FUNDING SOURCES - BUDGET AND ACTUAL
 FOR THE YEAR ENDED SEPTEMBER 30, 2007

Grant - MTF FY07 Asset Management

	<u>KATS</u>	Local Reimbursable <u>Match</u>	Project <u>Effort</u>	Supplemental Local Project <u>Effort</u>	Total <u>Effort</u>	<u>Budget</u>
Management Systems Asset Management	\$ 11,719	\$ 2,430	\$ 14,149	\$ -	\$ 14,149	\$ 20,000
Totals	<u>\$ 11,719</u>	<u>\$ 2,430</u>	<u>\$ 14,149</u>	<u>\$ -</u>	<u>\$ 14,149</u>	<u>\$ 20,000</u>

KALAMAZOO AREA TRANSPORTATION STUDY
SCHEDULE OF BUDGETED AND ACTUAL COSTS
FOR THE YEAR ENDED SEPTEMBER 30, 2007

<u>Costs</u>	<u>Budget</u>	<u>Percent</u>	<u>Actual</u>	<u>Percent</u>
Direct salaries	\$ 163,601	100.00%	\$ 157,426	100.00%
Fringe benefits:				
Annual leave	12,216		13,105	
Sick leave	9,789		11,309	
Emergency leave	694		-	
Holiday leave	6,937		7,014	
Social security	14,783		14,498	
Health insurance	42,251		43,885	
Dental insurance	4,307		4,049	
Optical insurance	452		-	
Life insurance	2,201		1,917	
Retirement	14,592		-	
Workers' compensation	1,932		382	
Subtotal	<u>110,154</u>	67.33%	<u>96,159</u>	61.08%
Indirect cost allocation base	<u>273,755</u>	100.00%	<u>253,585</u>	100.00%
Indirect costs:				
Office space	1,000		1,000	
Equipment	5,000		2,475	
Accounting services	500		-	
Legal services	5,000		-	
Legal notices	800		445	
Secretarial services	250		-	
Postage	4,000		2,665	
Copy cost	2,000		1,090	
Printing	2,000		1,037	
Supplies	2,500		3,221	
Telephone	1,500		612	
Equipment maintenance and repair	900		-	
Insurances	5,000		-	
Computer software	6,500		2,572	
Memberships	300		105	
Subscriptions	1,000		694	
Travel	4,500		4,105	
Educational/professional development	1,500		80	
Conferences	2,000		2,146	
Student employee education	-		-	
Website	1,000		1,010	
Depreciation	3,700		387	
Subtotal	<u>50,950</u>	18.61%	<u>23,644</u>	9.32%
Direct costs	<u>21,810</u>		<u>8,004</u>	
Total allowable and allocable costs	<u>346,515</u>		<u>285,233</u>	
Cash Match:				
Audit cost	8,800		8,556	
Total Cash Match	<u>8,800</u>		<u>8,556</u>	
Total Costs	<u>\$ 355,315</u>		<u>\$ 293,789</u>	

Note: This schedule presents only costs incurred by KATS and does not include the costs of any other local agency.



**Gardner | Provenzano
Schauman & Thomas**

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

**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**

November 16, 2007

To the Policy Committee
Kalamazoo Area Transportation Study
Kalamazoo, Michigan

We have audited the financial statements of the Kalamazoo Area Transportation Study as of and for the years ended September 30, 2007 and 2006 and have issued our report thereon dated November 16, 2007. 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.

Internal control Over Financial Reporting

In planning and performing our audit, we considered Kalamazoo Area Transportation Study's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kalamazoo Area Transportation Study's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of Kalamazoo Area Transportation Study's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

To the Policy Committee
Kalamazoo Area Transportation Study
Kalamazoo, Michigan
November 16, 2007
Page Two

A control deficiency 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 misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects Kalamazoo Area Transportation Study's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of Kalamazoo Area Transportation Study's financial statements that is more than inconsequential will not be prevented or detected by Kalamazoo Area Transportation Study's internal control.

Finding

We consider the audit adjustments that were necessary to correct the trial balance account balances that were used as a basis for the financial statements to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by Kalamazoo Area Transportation Study's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiencies described above to be a material weakness.

Response

Management will review its procedures and investigate additional options to determine what changes are appropriate to best address this issue.

To the Policy Committee
Kalamazoo Area Transportation Study
Kalamazoo, Michigan
November 16, 2007
Page Three

Compliance

As part of obtaining reasonable assurance about whether the Kalamazoo Area Transportation Study's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Kalamazoo Area Transportation Study's response to the finding identified in our audit is listed above. We did not audit Kalamazoo Area Transportation Study's response and, accordingly, express no opinion on it.

This report is intended for the information of management and the Policy Committee of the Kalamazoo Area Transportation Study. However, this report is a matter of public record and its distribution is not limited.

Barbara Proumpis, Schuman | Thomas

Certified Public Accountants



Gardner Provenzano Schauman & Thomas

CERTIFIED PUBLIC ACCOUNTANTS

Frederick C. Gardner
Giacamo Provenzano
James R. Schauman
Heather A. Thomas

November 16, 2007

Policy Committee
Kalamazoo Area Transportation Study
Kalamazoo, Michigan

We have audited the financial statements of the Kalamazoo Area Transportation Study for the year ended September 30, 2007, and have issued our report thereon dated November 16, 2007. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Generally Accepted Auditing Standards

As stated in our engagement letter dated December 1, 2004, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting principles. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material errors, fraud, or other illegal acts, may exist and not be detected by us.

As part of our audit, we considered the internal control of Kalamazoo Area Transportation Study. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Kalamazoo Area Transportation Study are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by the Kalamazoo Area Transportation Study during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Kalamazoo Area Transportation Study's financial reporting process (that is, cause future financial statements to be materially misstated).

The audit adjustments that were necessary, in our judgment, indicate matters that could have a significant effect on the Kalamazoo Area Transportation Study's financial reporting process.

The audit adjustments included, but were not limited to, recording billings receivable billed through August 2007 for section 8, section 112 and MTF grant, correct collection of prior year receivable recorded as current year revenue, record current year prepaid expenses and accounts payable, record contributed efforts and costs, record allocation of costs to work program categories, adjust grant receivables for final cost distribution/reimbursement amounts, and record elimination of liabilities for long term advances. The cumulative effect of the audit adjustments altered the initial change in net assets of \$(127,418) to \$9,995.

Disagreement with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

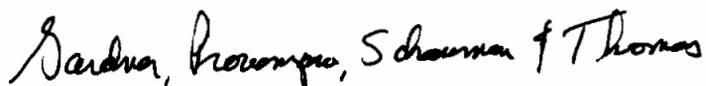
We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Kalamazoo Area Transportation Study's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

This information is intended solely for the use of Kalamazoo Area Transportation Study's Policy Committee and management of Kalamazoo Area Transportation Study and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,


Gardner, Procopio, Schuman & Thomas
Certified Public Accountants