

Auditing Procedures Report

Issued under Public Act 2 of 1968, as amended .

Unit Name	Kalamazoo City Perpetual Care	County	KALAMAZOO	Type	OTHER	MuniCode	39-7-514
Opinion Date	7/31/2008	Audit Submitted	08/07/08	Fiscal Year	2007		

If a local unit of government (authorities & 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, enclose the name(s), address(es), and a description(s) of the authority and/or commission.

Place a check next to each "Yes" or non-applicable question below. Questions left unmarked should be those you wish to answer "No".

<input checked="" type="checkbox"/>	1. Are all required component units/funds/agencies of the local unit included in the financial statements and/or disclosed in the reporting entity notes to the financial statements?
<input checked="" type="checkbox"/>	2. Does the local unit have a positive fund balance in all of its unreserved fund balances/unrestricted net assets?
<input checked="" type="checkbox"/>	3. Were the local unit's actual expenditures within the amounts authorized in the budget?
<input checked="" type="checkbox"/>	4. Is this unit in compliance with the Uniform Chart of Accounts issued by the Department of Treasury?
<input checked="" type="checkbox"/>	5. Did the local unit adopt a budget for all required funds?
<input checked="" type="checkbox"/>	6. Was a public hearing on the budget held in accordance with State statute?
<input checked="" type="checkbox"/>	7. Is the local unit in compliance with the Revised Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, and other guidance as issued by the Local Audit and Finance Division?
<input checked="" type="checkbox"/>	8. Has the local unit distributed tax revenues, that were collected for another taxing unit, timely as required by the general property tax act?
<input checked="" type="checkbox"/>	9. Do all deposits/investments comply with statutory requirements including the adoption of an investment policy?
<input checked="" type="checkbox"/>	10. Is the local unit free of illegal or unauthorized expenditures that came to your attention as defined in the Bulletin for Audits of Local Units of Government in Michigan, as revised (see Appendix H of Bulletin.)
<input checked="" type="checkbox"/>	11. Is the unit free of any indications of fraud or illegal acts that came to your attention during the course of audit that have not been previously communicated to the Local Audit and Finance Division? (If there is such activity, please submit a separate report under separate cover.)
<input checked="" type="checkbox"/>	12. Is the local unit free of repeated reported deficiencies from previous years?
<input checked="" type="checkbox"/>	13. Is the audit opinion unqualified?
	14. If not, what type of opinion is it? <input type="text" value="NA"/>
<input checked="" type="checkbox"/>	15. Has the local unit complied with GASB 34 and other generally accepted accounting principles (GAAP)?
<input checked="" type="checkbox"/>	16. Has the board or council approved all disbursements prior to payment as required by charter or statute?
<input checked="" type="checkbox"/>	17. To your knowledge, were the bank reconciliations that were reviewed performed timely?
<input type="checkbox"/>	18. Are there reported deficiencies?
<input type="checkbox"/>	19. If so, was it attached to the audit report?

General Fund Revenue:	<input type="text" value="\$0.00"/>
General Fund Expenditure:	<input type="text" value="\$0.00"/>
Major Fund Deficit Amount:	<input type="text" value="\$0.00"/>

General Fund Balance:	<input type="text" value="\$0.00"/>
Governmental Activities Long-Term Debt (see instructions):	<input type="text" value="\$0.00"/>

We affirm that we are certified public accountants (CPA) licensed to practice in Michigan. We further affirm the above responses have been disclosed in the financial statements, including the notes, or in the Management Letter (Reported deviations).

CPA (First Name)	Stephen	Last Name	Blann	Ten Digit License Number	1101024801				
CPA Street Address	675 Robinson Rd	City	Jackson	State	MI	Zip Code	49203	Telephone	(517) 787-6503
CPA Firm Name	Rehmann Robson	Unit's Street Address	241 W South St	City	Kalamazoo		Zip Code	49007	

CITY OF KALAMAZOO, MICHIGAN

PERPETUAL CARE FUND

Financial Statements

**For the Years Ended
December 31, 2007 and 2006**



REHMANN ROBSON

Certified Public Accountants

**CITY OF KALAMAZOO, MICHIGAN
PERPETUAL CARE FUND**

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INDEPENDENT AUDITORS' REPORT

June 30, 2008

Members of the Employee Retirement System
Investment Committee
City Commission of Kalamazoo
Kalamazoo, Michigan

We have audited the accompanying financial statements of the *Perpetual Care Fund of the City of Kalamazoo, Michigan*, (a permanent fund) as of and for the years ended December 31, 2007 and 2006, as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audits.

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 opinions.

As discussed in Note 1, the financial statements present only the Perpetual Care Fund and do not purport to and do not present fairly the financial position of the City of Kalamazoo, Michigan, as of December 31, 2007 and 2006, and the changes in its financial position for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Perpetual Care Fund of the City of Kalamazoo, Michigan as of December 31, 2007 and 2006, and the changes in its financial position for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated June 30, 2008, on our consideration of the Perpetual Care Fund of the City of Kalamazoo, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis is not a required part of the financial statements but is supplementary information required by the Governmental Accounting Standards Board. 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 this information and do not express an opinion on it.

MANAGEMENT'S DISCUSSION AND ANALYSIS

City of Kalamazoo, Michigan
Perpetual Care Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

The following is a discussion and analysis of the financial performance and position of the City of Kalamazoo Perpetual Care Fund (PCF). It is intended to provide an overview of PCF' financial activities for the fiscal year ended December 31, 2007. This analysis should be read in conjunction with the *Independent Auditors Report* and with the financial statements, which follows this section.

Condensed Financial Information

The table below compares key financial information in a condensed format between the current year and the prior year:

	Year Ended December 31,	
	<u>2007</u>	<u>2006</u>
Total assets	\$ 4,418,881	\$ 4,547,311
Total liabilities	<u>25,427</u>	<u>201,491</u>
Total fund balance	<u>\$ 4,393,454</u>	<u>\$ 4,345,820</u>
Net investment income	\$ 224,495	\$ 724,163
Charges for services	<u>24,824</u>	<u>36,099</u>
Total revenues	249,319	760,262
Professional fees	<u>21,572</u>	<u>21,585</u>
Revenue over expenditures	227,747	738,677
Transfers to the City of Kalamazoo Cemetery Fund	<u>(180,113)</u>	<u>(377,249)</u>
Net changes in fund balance	47,634	361,428
Fund balance		
Beginning of year	<u>4,345,820</u>	<u>3,984,392</u>
End of year	<u>\$ 4,393,454</u>	<u>\$ 4,345,820</u>

City of Kalamazoo, Michigan
Perpetual Care Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Overall Fund Structure and Objectives

PCF is a permanent trust fund which is used to hold and manage funds for the purpose of maintenance and upkeep of cemetery property, inclusive of maintenance of grounds and capital assets, monuments, and infrastructure. To this end, the PCF provides support for the City's Cemetery Fund, which manages the day-to-day operations and maintenance of the City's cemetery system.

Income for the PCF is derived primarily from investments in mutual funds, as well as from ½ of the fee for the sale of each lot.

Asset Allocation

The City Commission has delegated the management of PCF's assets to the Employee Retirement System Investment Committee. It is the responsibility of this Committee to determine the allocation of assets among distinct capital markets.

In determining asset allocation, the Committee reviews expected returns of various asset classes, the PCF's future liquidation needs, and the risks associated with alternative asset mix strategies. The Committee has established the following asset allocation:

<u>Asset Class</u>	<u>Target</u>
Large Capitalization Domestic Equity	10%
Large Capitalization Domestic Value Equity	10%
Large Capitalization International Equity	10%
Small Capitalization Domestic Value Equity	10%
Micro Capitalization Domestic Equity	10%
Small Capitalization International Equity	5%
Small Capitalization International Value Equity	5%
Emerging Markets Equity	10%
Bonds	30%

The asset allocation policy offers the optimal mix for meeting longer term goals at an acceptable risk level. The asset classes stated above shall be further diversified (where possible) as to style and manager type to reduce risk further, while providing the opportunity for enhanced return.

Economic Factors, Investment Returns, and Other Important Matters

Despite the overall decline in the domestic stock market, investments (net of interest, dividends and depreciation of fair market value) increased by \$224,495 in 2007, as opposed to a \$724,163 increase in 2006. The reason for the positive performance of the fund in 2007 was the relative position of international equities in the portfolio, which outperformed domestic equities for this period.

Overall, in 2006, the PCF fund balance increased by 9.1 percent. In 2007 the fund balance increased by 1.1%. This overall figure was inclusive of revenue for charges for services, and was net of expenses for professional fees.

It is important to note that the purpose of this fund is to preserve and manage the assets of the cemetery system. The returns on investment realized in any particular period are not reflective of the overall objective of the investment strategy. The investment strategy is focused on total long-term returns, which will align expected revenue with the fund's long-term objectives.

City of Kalamazoo, Michigan
Perpetual Care Fund

MANAGEMENT'S DISCUSSION AND ANALYSIS

December 31, 2007

Contacting the System's Financial Management

This financial report is designed to provide the public, citizens, and other interested parties with a general overview of PCF's financial position. If you have questions about this report or need additional financial information, contact Thomas C. Skrobola, Director of Management Services, City of Kalamazoo, 241 W. South Street, Kalamazoo, MI 49009, (269) 337-8468.

FINANCIAL STATEMENTS

CITY OF KALAMAZOO, MICHIGAN
Perpetual Care Fund
Balance Sheets
December 31, 2007 and 2006

	2007	2006
ASSETS		
Assets		
Cash and cash equivalents	\$ 203	\$ 180,336
Investments	4,416,370	4,366,705
Accounts receivable	2,308	270
TOTAL ASSETS	\$ 4,418,881	\$ 4,547,311
LIABILITIES AND FUND BALANCE		
Liabilities		
Contract payable	\$ 4,427	\$ 4,491
Due to other funds of the City	21,000	197,000
Total liabilities	25,427	201,491
Fund balance		
Reserved for cemetery care	1,735,160	1,735,160
Unreserved, undesignated	2,658,294	2,610,660
Total fund balance	4,393,454	4,345,820
TOTAL LIABILITIES AND FUND BALANCE	\$ 4,418,881	\$ 4,547,311

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Perpetual Care Fund
Statements of Revenue, Expenditures and
Changes in Fund Balance
For the Years Ended December 31, 2007 and 2006

	2007	2006
Revenue		
Charges for services	\$ 24,824	\$ 36,099
Interest and dividends	242,624	183,513
Net appreciation (depreciation) in the fair value of investments	(18,129)	540,650
Total revenue	249,319	760,262
Expenditures		
Professional fees	21,572	21,585
Revenue over expenditures	227,747	738,677
Other financing uses		
Transfers to City of Kalamazoo Cemetery Fund	(180,113)	(377,249)
Net changes in fund balance	47,634	361,428
Fund balance, beginning of year	4,345,820	3,984,392
Fund balance, end of year	\$ 4,393,454	\$ 4,345,820

The accompanying notes are an integral part of these financial statements.

CITY OF KALAMAZOO, MICHIGAN
Perpetual Care Fund

Notes To Financial Statements

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the Perpetual Care Fund of the City of Kalamazoo, Michigan (the “City”) conform to generally accepted accounting principles as applicable to governmental units. The following is a summary of the significant accounting policies.

Organization - The Perpetual Care Fund, a permanent trust fund of the City, was established to hold and manage funds for the purpose of financing the annual maintenance of the City’s cemeteries, in perpetuity. Management of the fund’s assets has been delegated to the Employee Retirement System Investment Committee by the City Commission. The Investment Committee currently contracts with Dimensional Fund Advisors, Inc. (DFA) to provide investment advisory services for the Perpetual Care Fund assets.

Reporting Entity - The City, for financial purposes, includes all of the funds relevant to the operations of the City of Kalamazoo. However, the financial statements presented herein include only the financial position and changes in financial position of the Perpetual Care Fund and, accordingly, are not intended to present the financial position and changes in financial position of the City of Kalamazoo in conformity with generally accepted accounting principles.

Fund Accounting - The Perpetual Care Fund is a permanent trust fund which is used to account for assets held by the City for the care of the City cemetery. The fund utilizes the modified accrual basis of accounting.

Cash and Cash Equivalents - All highly liquid investments, with an original maturity of three months or less, are considered to be cash equivalents.

Investments – Investments are separately held by the Perpetual Care Fund and consist of mutual funds which are stated at fair value.

**CITY OF KALAMAZOO, MICHIGAN
Perpetual Care Fund**

Notes To Financial Statements

2. CASH AND INVESTMENTS

The Fund's deposits and investments are included on the statements of net assets under the following classifications:

	<u>2007</u>	<u>2006</u>
Cash and cash equivalents	\$ 203	\$ 180,336
Investments	<u>4,416,370</u>	<u>4,366,705</u>
Total	<u>\$ 4,416,573</u>	<u>\$ 4,547,041</u>

The above amounts are classified in the following categories:

	<u>2007</u>	<u>2006</u>
Bank deposits (checking accounts, savings accounts and certificates of deposit)	\$ 203	\$ 180,336
Investment in equity mutual funds	<u>4,416,370</u>	<u>4,366,705</u>
Total	<u>\$ 4,416,573</u>	<u>\$ 4,547,041</u>

Custodial Credit Risk - Deposits. For deposits, custodial credit risk is the risk, that in the event of a bank failure, the Fund's deposits may not be returned to the government. The above deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$203 and \$180,336 at December 31, 2007 and 2006, respectively. Federal depository insurance is applied to the City of Kalamazoo's deposits as a whole. Therefore, the portion of the Fund's deposit covered by FDIC is not determinable.

The Fund's banking and investment policy does not specifically address this risk, although the Fund believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the Fund 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 risk level are used as depositories.

CITY OF KALAMAZOO, MICHIGAN
Perpetual Care Fund

Notes To Financial Statements

Custodial Credit Risk - Investments. As of December 31, 2007 and 2006, the System's investments were comprised solely of equity mutual funds. For investments, custodial credit risk is the risk that, in the event of the failure of the counterparty, the Fund will not be able to recover the value of its investments or collateral securities that are in the possession of an outside party. The Fund's investment policy requires that investment securities be held in third-party safekeeping by a designated institution and that the safekeeping agent follow the procedure of delivery vs. payment. As of December 31, 2007 and 2006, none of the Fund's investments were exposed to risk since the securities are held in the Fund's name by the counterparty.

Investments, managed by Dimensional Fund Advisors, Inc. (DFA), consist of a variety of equity mutual funds. The investments are designed to comply with the requirements and restrictions of Act 177 of the Public Acts of 1937, as amended, dealing with the investment of trust funds and the investment philosophy of the fund's investment committee.

The Act provides for the investment of funds in, but not limited to, equity securities and various interest-bearing instruments.

3. RISK MANAGEMENT

The Perpetual Care Fund is exposed to various risks of loss related to torts, errors and omissions. The Perpetual Care Fund 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 (including claims incurred but not reported) and allocates the cost to all appropriate entities and funds. There is no further exposure to the Perpetual Care Fund that would require a liability to be recorded in the financial statements.

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**INDEPENDENT AUDITORS' 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**

June 30, 2008

Members of the Employee Retirement System
Investment Committee
City Commission of Kalamazoo
Kalamazoo, Michigan

We have audited the financial statements of the *Perpetual Care Fund of the City of Kalamazoo, Michigan*, (a permanent fund), as of and for the year ended December 31, 2007, and have issued our report thereon dated June 30, 2008. 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 the Fund's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Fund's internal control over financial reporting.

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 the entity'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 the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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 presented or detected by the entity's internal control.

Our consideration of 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 internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Perpetual Care Fund of the City of Kalamazoo, Michigan's financial statements are free of 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 and the reports of the other auditors disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management, others within the organization, the Investment Committee, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink that reads "Lehmann Johnson". The signature is written in a cursive, flowing style.