

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 type="checkbox"/> Other		Local Unit Name	County
Fiscal Year End	Opinion Date	Date Audit Report Submitted to State	

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 NO 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 type="checkbox"/>			
The letter of Comments and Recommendations	<input type="checkbox"/>			
Other (Describe)	<input type="checkbox"/>			
Certified Public Accountant (Firm Name)		Telephone Number		
Street Address		City	State	Zip
Authorizing CPA Signature 	Printed Name		License Number	



**City of Charlotte, Michigan
Eaton County, Michigan**

**Comprehensive Annual Financial Report
Prepared by the Office of Finance and Treasury
Year Ended June 30, 2007**

City of Charlotte, Michigan

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City of Charlotte, Michigan

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Introductory Section

City of Charlotte

*111 E. Lawrence Avenue
Charlotte, Michigan 48813
517-543-2750
Fax 517-543-8845*

November 6, 2007

To the Honorable Mayor,
Members of the City Council,
Interim City Manager Gregg Guetschow, and the
Citizens of the City of Charlotte

The comprehensive annual financial report of the City of Charlotte for the year ending June 30, 2007, is hereby submitted as mandated by both local ordinances and State statutes. These ordinances and statutes require the City of Charlotte to annually issue a report on its financial position and activity, and that this report be audited by an independent firm of certified public accountants. Responsibility for both the accuracy of the data as well as the completeness and fairness of the presentation, including all disclosures, rests with the City. To the best of our knowledge and belief, the enclosed data is accurate in all material respects and is reported in a manner that presents fairly the financial position and results of operations of the various funds and component units of the City of Charlotte. All disclosures necessary to enable the reader to gain an understanding of the City of Charlotte's activities have been included.

THE REPORTING ENTITY AND ITS SERVICES

The City of Charlotte is located in the heart of Michigan, 18 miles southwest of the capital city of Lansing. The City currently has a land area of approximately 5 ½ square miles and an estimated population of about 8,700. Charlotte is the hub of three interstate highways: Interstates 69, 96 and 94. These highways provide excellent access to all major markets in Michigan, the Mid-West and Canada.

Only 200 years ago, the land on which the city is located was an overgrown prairie with an abundance of wild flowers, inhabited by Chippewa and Pottawatamie Indians. Indian paths crisscrossed the area and one trail became the preferred route for early pioneers. Running from Detroit to Grand Rapids, settlers named it Clinton Trail; today it is known as state highway M-50. The pioneer settlement located in the middle of Eaton County was incorporated as a village in 1863. Railroads brought growth to Michigan and Charlotte grew as well. Charlotte was incorporated as a city in 1871. Several beautiful homes and buildings in the downtown area, which still survive today, characterize the growth of the city. E.B. Bostwick, an early landowner, held the contract for all of Eaton County and suggested the city be named for his new bride, Charlotte (pronounced Shar-LOT).

The City's most notable attributes are its outstanding schools and parks; the Eaton County government complex; the Hayes Green Beach Memorial Hospital and specialty clinics facility; and the developing Combs industrial park, which consists of 190 acres. Seven manufacturing facilities and one warehousing facility currently occupy this industrial park.

The City provides a full range of municipal services as established by statute or charter. These services include police and fire protection, water and sewer utility services, the construction and maintenance of roads, streets and infrastructures, recreational activities and general administrative services.



For financial reporting purposes, this report includes all the funds of the City of Charlotte, as well as its component units. Component units are legally separate entities for which the primary government is financially accountable. The City of Charlotte Downtown Development Authority (DDA) and the Local Development Financing Authority (LDFA) are reported as discretely presented component units. Discretely presented component units are reported in a separate column in the combined financial statements to emphasize that they are legally separate from the primary government and to differentiate their financial position, results of operations, and cash flows from those of the primary government. The City's Building Authority is reported as a blended component unit. Although blended component units are legally separate, they are reported as if they are part of the primary government. The primary purpose of the City's Building Authority is to finance and construct the City's public buildings.

ECONOMIC CONDITION AND OUTLOOK

The City council was pro-active in using conservative budgeting practices in an effort to maintain healthy fund balances. In developing the 2007/2008 fiscal year budget, the impact of a stagnate national economy, perpetually increasing health care costs, rising gas and utility costs, as well as potential State of Michigan budget cuts were taken into account. In addition, the number of full-time employees was held constant.

Housing stock is being upgraded through both voluntary measures and code enforcement efforts. Although the City has experienced a slowdown of residential growth in the past year, we continue to realize economic growth through commercial developments. New developments currently under construction or approved by the planning commission to begin in FY 06/07 include: Spartan Motor's expansion; assisted living facility on North Cochran; new dentist office on West Lawrence; and construction of a new McDonald's on Lansing Road to replace their existing building.

The City maintains strong leadership through both its Interim City Manager and department heads. The City's leadership team has over 100 years of combined public service experience and is ready to solve any challenge presented.

MAJOR INITIATIVES

The City is recognized as a growing and progressive community in the Lansing region and receives positive media coverage in the Charlotte Shopping Guide, The County Journal and Lansing State Journal. Economic development is actively encouraged, as demonstrated by the steady growth during the past ten years.

Following are highlights of some of the City's major projects recently completed or planned for the future:

State of Michigan's Blueprints Program – The City of Charlotte Downtown Development Authority, along with several other area partners, including the Charlotte Chamber of Commerce, the Charlotte Public Schools, Can Do!, Hayes Green Beach Memorial Hospital and the Charlotte Fraternal Order of Police, continue the implementation of the downtown revitalization plan established by HyettPalma, Inc. as part of the State of Michigan's Blueprints for Michigan Downtowns Program.

Brownfield Assessment Grants –The City applied for, and was awarded, two grants of \$200,000 each from the United States Environmental Protection Agency for the purposes of identifying, prioritizing, and analyzing those previously developed properties within the city which could be reused if issues of contamination or perceived contamination were remedied. The City expended \$63,450 of these grant funds in fiscal year 2006/2007.

Community Development Block Grant –The City obtained a \$450,000 Community Development Block Grant during the year. These funds were disbursed to Next Door, LLC for job training of new employees as a result of their expansion. Next Door created 100 jobs for which the grant provided \$4,500 per employee for job training.

Street Improvements – The City completed the paving of projects of two gravel streets during the year. The paving of Brackett Street included the installation of water and sewer mains. The total cost for that project was \$185,550. Jefferson Street was paved for a total cost of \$85,600. In addition, the reconstruction of South Sheldon Street including a water main was completed for a total cost of \$549,350.

Sidewalk Improvements – Sidewalk repairs/construction totaling \$49,900 were completed during fiscal year 2006/2007. In addition, \$73,200 is appropriated in the 2007/2008 fiscal year budget for sidewalk repairs, maintenance and construction.

Parks and Recreation –The local Rotarians began construction of a pavilion at Dean Park at the end of the fiscal year. It is anticipated that the pavilion will be completed and donated to the City in the next fiscal year.

The City administration remains customer focused and is pro-active in meeting customer needs. Through participation in several community functions and activities, the Fire and Police departments continued their outreach to the residents of Charlotte.

ACCOUNTING SYSTEM AND BUDGETARY CONTROL

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise assets, liabilities, fund equity, revenues, and expenditures or expenses, as appropriate. Resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled.

The City's accounting records for general governmental operations are maintained on a modified accrual basis, with revenues being recorded when available and measurable and expenditures being recorded when the services or goods are received and the liabilities are incurred. Accounting records for the City's enterprise funds and internal service funds are maintained on the accrual basis. Assets used in governmental fund type operations and long-term liabilities expected to be financed from governmental funds are accounted for at the government-wide level, not in the governmental funds.

Management of the City is responsible for establishing and maintaining an internal control structure designed to ensure that the assets of the City are protected from loss, theft or misuse, and to ensure that adequate accounting data are compiled to allow for the preparation of financial statements in conformity with generally accepted accounting principles. Internal accounting controls are designed to provide reasonable, but not absolute, assurance that these objectives will be met. The concept of reasonable assurance recognizes that: (1) the cost of a control should not exceed the benefits likely to be derived; and (2) the valuation of costs and benefits requires estimates and judgments by management.

As a recipient of federal, state, and local financial assistance, the City is also responsible for ensuring that an adequate internal control structure is in place to ensure and document compliance with applicable laws and regulations related to these programs. This internal control is subject to periodic evaluation by management of the City and the external-independent audit staff retained by the City for required periodic audits.

The City maintains extensive budgetary controls. The objective of these controls is to ensure compliance with legal provisions embodied in the annual appropriated budget approved by the City Council.

Activities of the general fund and special revenue funds are included in the annual appropriated budget. Project-length budgets are prepared for capital projects funds, if any. The level of budgetary control (i.e. the level at which expenditures cannot legally exceed the appropriated amount) is the functional level within each fund.

GENERAL GOVERNMENTAL FUNCTIONS

REVENUES and other financing sources for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$6.12 million during the fiscal year ended June 30, 2007, an increase of 14.08% from the preceding year. The amounts received from various sources and representative percentages are shown below:

<i>Revenues and sources</i>	<i>other</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
Taxes and assessments		\$2,953,677	48.25%	\$188,012	6.80%
Licenses and permits		90,065	1.47%	34,080	60.87%
Intergovernmental		2,002,913	32.72%	232,261	13.12%
Charges for services		229,701	3.75%	19,650	9.35%
Fines and forfeits		31,532	0.52%	2,325	7.96%
Other revenue		383,706	6.27%	188,618	96.68%
Total revenues		\$5,691,594	92.97%	\$664,946	13.23%
	Other sources	430,556	7.03%	90,870	26.75%
Total revenues and other sources		\$6,122,150	100.00%	\$755,816	14.08%

The largest source of local revenues was, once again, general property taxes and assessments, which increased from \$2.77 million in fiscal year 2005/2006 to \$2.95 million in fiscal year 2006/2007. These taxes, which include real and personal property levies, produced \$188,012 more in fiscal year 2006/2007

than in fiscal year 2005/2006 as a result of an increase in residential and commercial property taxable values. The increase in “licenses and permits” is attributable to the Spartan Motor’s expansion project. The large increase in “other revenue” is the result of the City beginning to collect Sugar Mill apartment’s payment-in-lieu-of-taxes (PILOT). In addition, an increase in interest rates resulted in an increase in interest income.

GENERAL GOVERNMENTAL FUNCTIONS (Continued)

EXPENDITURES and other financing uses for general governmental functions (the General, Special Revenue, Debt Service, and Capital Projects Funds) totaled \$6.11 million during the fiscal year ended June 30, 2007, an increase of 19.75% from the preceding year. Expenditures and other uses for the major functions of the City are recorded as follows:

<i>Expenditures and uses</i>	<i>other</i>	<i>Amount</i>	<i>Percent of Total</i>	<i>Increase (decrease) from prior year</i>	<i>Percent of increase or decrease</i>
General government		\$550,204	9.00%	(\$44,836)	-7.53%
Public safety		2,511,489	41.09%	15,478	0.62%
Public works		1,581,050	25.87%	535,930	51.28%
Recreation & culture		175,392	2.87%	20,421	13.18%
Community & economic development		657,815	10.76%	514,100	357.72%
Capital outlay		83,404	1.36%	(129,342)	-60.80%
Debt Service		145,406	2.38%	6,521	4.70%
Total expenditures		\$5,704,760	93.34%	\$918,272	19.18%
Other uses and transfers		407,185	6.66%	89,769	28.28%
Total expenditures and other uses		\$6,111,945	100.00%	\$1,008,041	19.75%

The receipt of a \$450,000 CDBG grant during the year resulted in the significant increase in community & economic development expenditures. Because of the uncertainty of general fund revenues during the fiscal year 2006/2007 budget, the City limited general fund capital outlay expenditures for the year. This resulted in a 60.80% decrease over fiscal year 2005/2006 capital outlay expenditures.

FUND BALANCES of the General, Special Revenue, Debt Service and Capital Project Funds totaled \$2.93 million as of June 30, 2007. Total fund balance of the General Fund stands at \$1.67 million; with the Special Revenue and Debt Service Funds at \$1.26 million and \$2,360 respectively. The General Fund’s unreserved-undesignated fund balance of \$1.18 million represents 24.7% of the General Fund’s 2007/2008 fiscal year budgeted non capital expenditures.

ENTERPRISE FUNDS

The City's enterprise operations are comprised of the water supply and sewage disposal system, and the recycling center. The primary purpose of the enterprise funds is to account for operations that are financed and operated in a manner similar to private business enterprises. The intent is that the costs (including depreciation) of providing services to the general public on a continuing basis, be financed or recovered primarily through user charges. It is also intended, under current City Council policy, that utility rates be sufficient to make any debt service for debt incurred to replace, expand, or improve the utility system infrastructure.

The Water Supply and Sewage Disposal Fund recorded an increase in net assets of \$0.46 million for fiscal year 2007/2008. The fund had net working capital of \$685,138 and unrestricted cash and investments totaling \$707,930 as of June 30, 2007.

RISK MANAGEMENT

Under a comprehensive plan of risk management, the City maintains property, liability, and workers compensation insurance coverage through the Michigan Municipal League Property and Liability Pool and other commercial carriers. The City currently has self-insurance programs for employee short-term disability, eye care reimbursement, third party administered Blue Cross/Blue Shield deductible, and third party administered prescription purchase.

The City has adopted general safety policies and guidelines, with supplemental guidelines adopted by most City departments. Safety committees are in place in each department, with oversight by a general safety committee comprised of all City department heads and the manager. The committees hold training sessions, review specific risks, and review incident reports with recommendations for correction as a follow-up. City administration also holds mandatory safety and voluntary wellness programs each year.

CASH MANAGEMENT AND INVESTMENTS

The City is conservative in its approach to cash management with a realization that there is a time-value to money. A high priority has been placed on procedures to ensure that all monies due the City are collected and deposited as promptly as possible. Disbursements are closely controlled and wire transfers are used whenever appropriate.

Of equal importance is the emphasis on investment portfolio management. Investments of temporarily idle funds are invested in certificates of deposit with maturities ranging from 30 to 180 days depending on when the money is needed. The City pools the cash of various funds, except in certain restricted and special accounts, to maximize interest earnings. These investments are consistent with the City's policy to minimize credit and market risk while maintaining a competitive yield on its portfolio.

INDEPENDENT AUDIT

State statutes require an annual audit by independent certified public accountants. The firm of Plante & Moran, PLLC was selected by the city council to conduct the required audit.

AWARDS

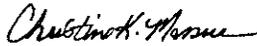
The City of Charlotte has been presented the Government Finance Officers Association's (GFOA) Certificate of Achievement for Excellence in Financial Reporting for the year ended June 30, 2006. In order to be awarded a Certificate of Achievement, the City must publish an easily readable and efficiently organized comprehensive annual financial report that satisfies both generally accepted accounting principles and applicable legal requirements.

A Certificate of Achievement is valid for a period of one year only. We believe that our current comprehensive annual financial report will also meet the Certificate of Achievement Program's requirements and we are submitting it to the GFOA to determine eligibility for a certificate.

ACKNOWLEDGEMENTS

I want to thank my Deputy Treasurer for her efforts in preparing this report and various other city staff for their cooperation and assistance throughout the past year. I also appreciate the support extended by the City Manager, Mayor and City Council.

Respectfully submitted,



Christine K. Mossner, JD
Finance Director

City of Charlotte, Michigan

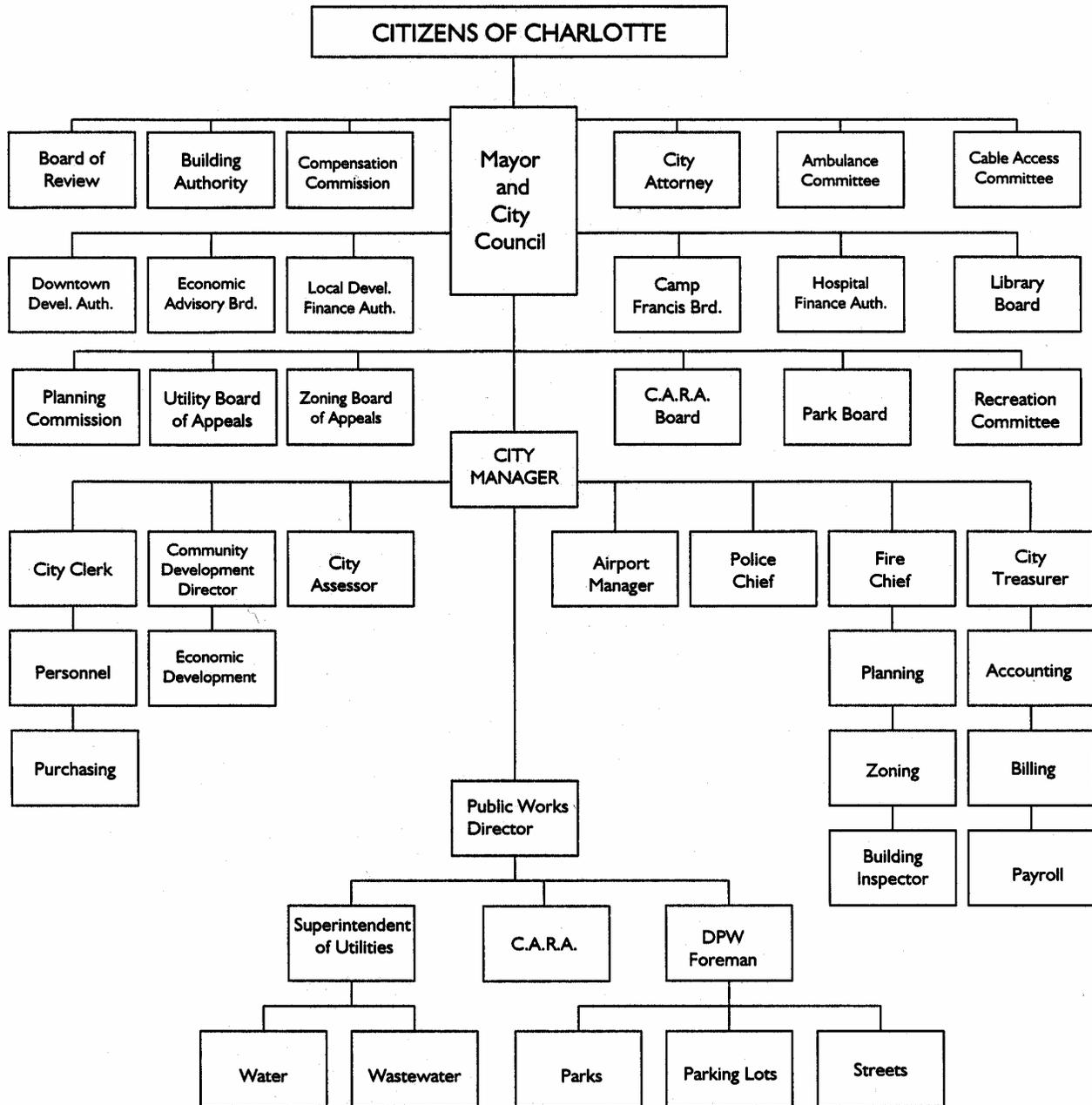
List of Elected and Appointed Officials June 30, 2007

City Council:

Mayor	Deb Shaughnessy
Mayor Pro-Tem	James Manning
Trustee	Mary Jean Baker
Trustee	Kevin Weissenborn
Trustee	Tim Lewis
Trustee	Deleski Smith
Trustee	Heather Spielmaker

Appointed Officials:

City Manager	Dennis Stark
Fire Chief	Kevin Fullerton
Assessor (Contract)	Randy Jewell
Clerk	Catalina Beasley
Finance Director	Christine Mossner
Director of Public Works	Amy Schoonover
Police Chief	Bill Callahan



Certificate of Achievement for Excellence in Financial Reporting

Presented to

City of Charlotte
Michigan

For its Comprehensive Annual
Financial Report
for the Fiscal Year Ended
June 30, 2006

A Certificate of Achievement for Excellence in Financial Reporting is presented by the Government Finance Officers Association of the United States and Canada to government units and public employee retirement systems whose comprehensive annual financial reports (CAFRs) achieve the highest standards in government accounting and financial reporting.



President

Executive Director

Financial Section



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Independent Auditor's Report

To the City Council
City of Charlotte, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Charlotte, Michigan's management. Our responsibility is to express opinions 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 basic 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.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Charlotte, Michigan as of June 30, 2007 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

To the City Council
City of Charlotte, Michigan

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. The management's discussion and analysis and the budgetary comparison schedule-General Fund, as identified in the table of contents, are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. The introductory section, other supplemental information, and statistical section, as identified in the table of contents, are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The budgetary comparison schedules, combining balance sheets, and combining statements of revenue, expenditures, and changes in fund balance have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole. We have applied certain limited procedures to the management's discussion and analysis, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it. The introductory section and statistical section have not been subjected to the auditing procedures applied by us in the audit of the basic financial statements and, accordingly, we express no opinion on them.

In accordance with *Government Auditing Standards*, we have also issued our report dated November 6, 2007 on our consideration of the City of Charlotte, Michigan's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grants, 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 opinions 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.

Plante & Moran, PLLC

November 6, 2007

City of Charlotte, Michigan

Management's Discussion and Analysis

The following discussion and analysis of the City of Charlotte, Michigan's annual financial report presents our view of the City's financial performance during the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

The assets of the City exceeded its liabilities at the close of the most recent fiscal year by \$31.7 million (net assets). Of this amount, \$2.9 million (unrestricted net assets) may be used to meet the government's ongoing obligations to citizens and creditors.

During the year, the City received approximately \$9 million in revenues and \$8.9 million in expenses, resulting in an increase in net assets of approximately \$0.1 million. Of the City's \$8.9 million expense total, \$2.9 million related to business-type expenses and the balance of \$6.0 million related to governmental activities.

As of the close of the current fiscal year, the City's governmental funds reported a combined ending fund balance of \$2.9 million, which is no change from the prior year. Approximately 82.3 percent of this amount is available for spending at the government's discretion (unreserved fund balance). The remaining 17.7 percent has been reserved and/or designated.

At the end of the current fiscal year, unreserved, undesignated fund balance for the General Fund was \$1.2 million or 28.9 percent of the General Fund's total expenditures.

Overview of the Financial Statements

This annual report consists of the following report sections: management's discussion and analysis (this section), the basic financial statements, required supplemental information, other supplemental information, which presents combining statements for nonmajor governmental funds, and statistical section. The basic financial statements are presented in two different formats: government-wide financial statements and fund financial statements.

The government-wide financial statements include the statement of net assets and the statement of activities. These statements provide both long-term and short-term information about the City's overall financial status.

The fund financial statements include the balance sheet and statement of revenue, expenditures, and changes in fund balances. These statements focus on individual parts of the City government and report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds.

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

The governmental fund statements tell how general government services, such as public safety, were financed in the short term, as well as what remains for future spending.

The proprietary fund statements present short- and long-term financial information about those activities that the City operates in a business-like manner, such as the water supply and sewage disposal systems.

The fiduciary fund statements provide information about the financial relationships in which the City acts solely as a trustee or agent for the benefit of others, to whom the resources in question belong.

The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data. The statements are followed by a section of required supplementary information that further explains and supports the information presented in the financial statements. In addition to these required supplementary schedules, we have provided a section with combining statements that provide details about our nonmajor governmental and agency funds.

Government-wide Statements

The City's government-wide statements report information about the City as a whole under the accrual method of accounting, which is similar to the accounting used by most private-sector companies. The statement of net assets includes both current and long-term assets and liabilities and the statement of activities includes all of the current year's revenues and expenses regardless of when cash is received or paid.

The combined objective of the government-wide statements is to report the City's net assets and how they have changed. The reporting of net assets is one way to measure the City's financial position.

The City's government-wide financial statements divide the reported information into three categories:

- Governmental activities - Most of the City's basic services are included here, such as police, fire, public works, recreation, and general services. Property taxes, state revenue sharing, and federal grants are used to finance most of these activities.
- Business-type activities - The City charges fees to customers to help it cover the costs of certain services it provides. The City's water supply and sewage disposal systems are included in this category.
- Component units - The City includes other legal entities in its report such as the Downtown Development Authority and Local Development Financing Authority. The City is financially accountable for these "component units" although they are legally separate entities.

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

Fund Financial Statements

The City's fund financial statements provide more detailed information about the City's most significant funds. The City uses funds to account for specific sources of funding and spending for particular purposes. Some funds are required by state law or bond covenants and others are established to control and manage money for particular purposes.

The City has three fund types that use different accounting approaches:

- Governmental funds - Most of the City's basic services are included in governmental funds. These funds focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year end available for spending. These funds are reported using the modified accrual accounting method, which measures cash and all other financial assets that can be readily converted to cash. The governmental fund statements provide a detailed short-term view of the City's general government operations and the basic services it provides. Because governmental fund information has a short-term focus and the government-wide statement incorporates long-term information, we reconcile the differences at the bottom of the fund financial statements.
- Proprietary funds - When the City charges customer fees for the services it provides, the fees are generally reported in proprietary funds. Similar to the reporting method used on the government-wide statements, proprietary funds provide both long- and short-term financial information.
 - In fact, the City's enterprise funds (Water Supply and Sewage Disposal Fund and the Recycling Fund) are the business-type activities reported in the government-wide statements, but provide more detail in the proprietary funds statements.
 - We use an Internal Service Fund (the other type of proprietary fund) to report equipment rental services to the City's other programs and activities, which is reported in the Motor Vehicle Pool Fund.
- Fiduciary funds - The City acts as a collection agent for certain other taxing jurisdictions such as the schools and county. The City is responsible for ensuring that the assets reported in this fund are used for their intended purpose. A separate statement of fiduciary assets and liabilities is presented on page 20 of this report. These activities are excluded from the City's government-wide financial statements because the City cannot use these assets to finance its operations.

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

Financial Analysis of the City as a Whole

The City's combined net assets increased from \$31.6 million to \$31.7 million. The following table illustrates the varying results of the governmental activities and business-type activities that combine to capture the City's total net assets.

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
	(in thousands)					
Current assets	\$ 3,698	\$ 3,586	\$ 2,285	\$ 2,197	\$ 5,983	\$ 5,783
Noncurrent assets	17,968	18,448	17,280	17,324	35,248	35,772
Total assets	21,666	22,034	19,565	19,521	41,231	41,555
Current liabilities	600	386	734	689	1,334	1,075
Long-term liabilities	1,315	1,542	6,863	7,324	8,178	8,866
Total liabilities	1,915	1,928	7,597	8,013	9,512	9,941
Net assets:						
Invested in capital assets -						
Net of related debt	16,888	17,278	9,927	9,535	26,815	26,813
Restricted	1,078	1,258	846	840	1,924	2,098
Unrestricted	1,785	1,570	1,195	1,133	2,980	2,703
Total net assets	\$ 19,751	\$ 20,106	\$ 11,968	\$ 11,508	\$ 31,719	\$ 31,614

A substantial portion of the City's net assets (84.5 percent) reflects its investment in capital assets (e.g., land, buildings, infrastructure, machinery, and equipment), less any related outstanding debt used to acquire those assets. Such assets are used to provide services to the citizens of Charlotte and are therefore not available for future spending.

Net assets of the City's governmental activities decreased by 1.8 percent to \$19.7 million. This decrease is due to expenses exceeding revenues for the year. This anticipated variance was covered by a draw on net assets as decided during the budget process.

The net assets of our business-type activities increased by 4.0 percent to \$12.0 million during the fiscal year. This increase is due to revenues exceeding expenses.

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

The following table displays the City's changes in net assets:

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
	(in thousands)					
Revenue						
Program revenue:						
Charges for services	\$ 767	\$ 743	\$ 3,097	\$ 2,874	\$ 3,864	\$ 3,617
Operating grants and contributions	487	36	24	25	511	61
Capital grants and contributions	14	203	205	122	219	325
General revenue:						
Property taxes	2,919	2712	-	-	2,919	2,712
State-shared revenue	1,043	1097	4	9	1,047	1,106
Unrestricted investment earnings	178	114	83	78	261	192
Transfers and other revenue	190	78	(18)	1	172	79
Total revenue	5,598	4,983	3,395	3,109	8,993	8,092
Program Expenses						
General government	607	651	-	-	607	651
Public safety	2,648	2,613	-	-	2,648	2,613
Public works	1,790	1,811	-	-	1,790	1,811
Community and economic development	643	169	-	-	643	169
Recreation and culture	210	186	-	-	210	186
Interest on long-term debt	55	57	-	-	55	57
Trash and recycling	-	-	45	50	45	50
Water and sewer	-	-	2,889	2,711	2,889	2,711
Total program expenses	5,953	5,487	2,934	2,761	8,887	8,248
Change in Net Assets	\$ (355)	\$ (504)	\$ 461	\$ 348	\$ 106	\$ (156)

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

Governmental Activities

- The cost of all governmental activities this year was \$5.9 million.
- The amount that City taxpayers paid for these activities through City taxes was \$2.9 million.
- Some of the cost (\$1.3 million) was paid by the beneficiaries of the program's activities or by other governments and organizations that subsidized certain programs with grants and contributions.
- The City's governmental activities revenues are comprised predominantly of property taxes and state-shared revenue (52.1 percent and 18.6 percent, respectively). The City has minimal control over either of these revenue sources. The City's ability to raise property tax revenue is limited by the levying constraints of both Proposal A and the Headlee amendment. In addition, state budgetary constraints have resulted in the legislature freezing state revenue-sharing amounts at prior year's levels.
- A combined 74.5 percent of the City's governmental activities expenses are for "public benefit" services such as fire protection, police protection, and city street maintenance and construction.

Business-type Activities

Operating revenues of the City's business-type activities of water supply, sewage disposal, and recycling were \$3.4 million and operating expenses were \$2.9 million, resulting in net income of \$0.5 million for these operations.

Financial Analysis of the City's Funds

As the City completed the year, its governmental funds (see the balance sheet presented on page 14) reported a combined fund balance of \$2.9 million, which is no change over the prior year.

The City's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail. The Water Supply and Sewage Disposal Fund realized a total growth in net assets of \$0.5 million and unrestricted net assets at the end of the year of \$1.2 million. The Recycling Fund had an increase of net assets of \$944 for total unrestricted net assets at year end of \$20,267.

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

General Fund Budgetary Highlights

There were no budgetary adjustments made to the General Fund during the year. Revenues for the year came in \$0.3 million over budget while expenditures were \$0.2 million under budget.

Capital Assets

At June 30, 2007, the City had invested approximately \$35.2 million in a broad range of capital assets, including police and fire equipment, buildings, computer equipment and software, parks and recreational facilities, roads, sidewalks, parking lots, and water and sewer lines (see table below):

	Governmental Activities		Business-type Activities		Total	
	2007	2006	2007	2006	2007	2006
	(in thousands)					
Land	\$ 1,846,376	\$ 1,860,936	\$ 104,995	\$ 104,995	\$ 1,951,371	\$ 1,965,931
Construction in progress	64,765	68,944	-	-	64,765	68,944
Infrastructure	22,897,267	22,306,419	-	-	22,897,267	22,306,419
Buildings and improvements	2,703,800	2,703,800	26,592,016	26,059,571	29,295,816	28,763,371
Vehicles	2,117,994	2,097,657	-	-	2,117,994	2,097,657
Equipment	2,714,056	2,705,180	-	-	2,714,056	2,705,180
Subtotal assets	32,344,258	31,742,936	26,697,011	26,164,566	59,041,269	57,907,502
Accumulated depreciation	14,375,812	13,295,300	9,417,331	8,840,553	23,793,143	22,135,853
Net capital assets	\$ 17,968,446	\$ 18,447,636	\$ 17,279,680	\$ 17,324,013	\$ 35,248,126	\$ 35,771,649

Construction in progress includes the engineering and design costs for various street construction projects in the city which include Reynolds Road, Parkland Drive, and Lipsey Drive. Construction of Reynolds Road began in July 2007 and is anticipated to be completed by early Fall 2007. The expansion of Parkland and Lipsey Drive, in the industrial park, is on hold pending approval of the environmental permits by the State of Michigan.

Debt

At year end, the City had \$8.6 million in bonds and notes outstanding. This represents a \$544,159 decrease from the previous year. More detailed information about the City's long-term liabilities is presented in Note 7 to the financial statements.

City of Charlotte, Michigan

Management's Discussion and Analysis (Continued)

Economic Factors and Next Year's Budget and Rates

The City's budget for the 2008 fiscal year is balanced with a level property tax rate of 13.4346 mills. Estimated property tax revenues are expected to increase by approximately \$73,000. As stated earlier, the City's General Fund revenue is comprised predominantly of property taxes and state-shared revenue. The City has seen a leveling off of state-shared revenue receipts since fiscal year 2001/2002 due to state budget shortfalls. This reduction in state-shared revenue, coupled with minimal property tax growth, has hindered the City's ability to realize revenues adequately enough to maintain current services and yet meet the demands of escalating employee benefit and operating expenditures. As a result, the City again limited its capital outlay expenditures for fiscal year 2007/2008, but maintained all staffing levels and services to the public.

Total expenses in the General Fund for fiscal year 2007/2008 are estimated to be \$5.0 million. The public safety departments represent the single largest component of overall budget expenditures with a total estimated cost of \$2.8 million.

Contacting the City's Financial Management

This financial report is intended to provide citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have any questions about this report or need additional information, we welcome you to contact the finance director's office at the City of Charlotte, 111 E. Lawrence Ave., Charlotte, Michigan 48813.

City of Charlotte, Michigan

Statement of Net Assets June 30, 2007

	Primary Government			Component Units
	Governmental Activities	Business-type Activities	Total	
Assets				
Cash and investments (Note 3)	\$ 2,988,073	\$ 726,140	\$ 3,714,213	\$ 916,702
Receivables - Net (Note 4)	528,432	504,853	1,033,285	6,458
Prepaid costs and other assets	178,708	207,970	386,678	-
Restricted assets (Notes 3 and 8) -				
Cash and investments	2,360	846,350	848,710	-
Capital assets - Net (Note 5):				
Assets not subject to depreciation	1,911,141	104,995	2,016,136	-
Assets subject to depreciation	<u>16,057,305</u>	<u>17,174,685</u>	<u>33,231,990</u>	<u>-</u>
Total assets	21,666,019	19,564,993	41,231,012	923,160
Liabilities				
Accounts payable	212,225	43,601	255,826	2,322
Accrued and other liabilities	139,727	199,957	339,684	-
Noncurrent liabilities (Note 7):				
Due within one year	247,806	490,000	737,806	-
Due in more than one year	<u>1,314,544</u>	<u>6,863,164</u>	<u>8,177,708</u>	<u>-</u>
Total liabilities	<u>1,914,302</u>	<u>7,596,722</u>	<u>9,511,024</u>	<u>2,322</u>
Net Assets				
Invested in capital assets - Net of related debt	16,888,466	9,926,516	26,814,982	-
Restricted:				
Debt service	2,360	846,350	848,710	-
Streets and highways	1,051,890	-	1,051,890	-
Other purposes	23,824	-	23,824	-
Unrestricted	<u>1,785,177</u>	<u>1,195,405</u>	<u>2,980,582</u>	<u>920,838</u>
Total net assets	<u>\$ 19,751,717</u>	<u>\$ 11,968,271</u>	<u>\$ 31,719,988</u>	<u>\$ 920,838</u>

City of Charlotte, Michigan

	Program Revenues			
	Expenses	Charges for Services	Operating Grants and Contributions	
Functions/Programs				
Primary government:				
Governmental activities:				
General government	\$ 606,810	\$ 218,433	\$ -	\$ -
Public safety	2,647,674	190,175	7,030	-
Public works	1,789,658	358,457	22,732	14,256
Community and economic development	643,206	-	457,508	-
Recreation and culture	211,174	-	-	-
Interest on long-term debt	54,933	-	-	-
Total governmental activities	5,953,455	767,065	487,270	14,256
Business-type activities:				
Water and sewer	2,889,092	3,076,075	-	204,681
Recycling	44,846	20,278	23,944	-
Total business-type activities	2,933,938	3,096,353	23,944	204,681
Total primary government	<u>\$ 8,887,393</u>	<u>\$ 3,863,418</u>	<u>\$ 511,214</u>	<u>\$ 218,937</u>
Component units:				
Downtown Development Authority	\$ 21,377	\$ -	\$ -	\$ -
Local Development Financing Authority	38,326	-	-	-
Total component units	<u>\$ 59,703</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

General revenues:

Property taxes
 Unrestricted state-shared revenues
 Unrestricted investment earnings
 Miscellaneous

Transfers

Total general revenues and transfers

Changes in Net Assets

Net Assets - Beginning of year

Net Assets - End of year

Statement of Activities
Year Ended June 30, 2007

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Units
Governmental Activities	Business-type Activities	Total	
\$ (388,377)	\$ -	\$ (388,377)	\$ -
(2,450,469)	-	(2,450,469)	-
(1,394,213)	-	(1,394,213)	-
(185,698)	-	(185,698)	-
(211,174)	-	(211,174)	-
(54,933)	-	(54,933)	-
(4,684,864)	-	(4,684,864)	-
-	391,664	391,664	-
-	(624)	(624)	-
-	391,040	391,040	-
(4,684,864)	391,040	(4,293,824)	-
-	-	-	(21,377)
-	-	-	(38,326)
-	-	-	(59,703)
2,919,096	-	2,919,096	214,805
1,043,178	4,199	1,047,377	-
178,226	83,352	261,578	40,451
166,436	5,437	171,873	1,562
23,371	(23,371)	-	-
4,330,307	69,617	4,399,924	256,818
(354,557)	460,657	106,100	197,115
20,106,274	11,507,614	31,613,888	723,723
\$ 19,751,717	\$ 11,968,271	\$ 31,719,988	\$ 920,838

City of Charlotte, Michigan

Governmental Funds Balance Sheet June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Assets			
Cash and investments (Note 3)	\$ 1,600,373	\$ 1,246,882	\$ 2,847,255
Receivables - Net (Note 4)	376,735	150,890	527,625
Prepaid costs and other assets	161,392	4,412	165,804
Restricted assets - Cash and investments (Notes 3 and 8)	-	2,360	2,360
Total assets	<u>\$ 2,138,500</u>	<u>\$ 1,404,544</u>	<u>\$ 3,543,044</u>
Liabilities and Fund Balances			
Liabilities			
Accounts payable	\$ 185,004	\$ 23,475	\$ 208,479
Accrued and other liabilities	124,571	6,930	131,501
Deferred revenue (Note 4)	157,096	110,699	267,795
Total liabilities	466,671	141,104	607,775
Fund Balances			
Reserved for:			
Debt service	-	2,360	2,360
Law enforcement	-	23,824	23,824
Prepaid assets and other assets	161,392	-	161,392
Unreserved, reported in:			
General Fund:			
Designated for:			
Building maintenance	51,122	-	51,122
Retiree health benefits	200,000	-	200,000
Compensated absences	50,000	-	50,000
Major equipment purchases	30,000	-	30,000
Undesignated	1,179,315	-	1,179,315
Special Revenue Funds	-	1,237,256	1,237,256
Total fund balances	<u>1,671,829</u>	<u>1,263,440</u>	2,935,269
Total liabilities and fund balances	<u>\$ 2,138,500</u>	<u>\$ 1,404,544</u>	

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and are not reported in the funds	17,284,202
Special assessment and other receivables are expected to be collected over several years and are not available to pay for current year expenditures	267,795
Accrued interest is not due and payable in the current period and is not reported in the funds	(5,914)
Long-term liabilities are not due and payable in the current period and are not reported in the funds	(1,562,350)
Internal Service Funds are included as part of governmental activities	<u>832,715</u>
Net assets of governmental activities	<u>\$ 19,751,717</u>

City of Charlotte, Michigan

Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2007

	General Fund	Nonmajor Governmental Funds	Total Governmental Funds
Revenue			
Property taxes	\$ 2,939,421	\$ -	\$ 2,939,421
Special assessments	-	14,256	14,256
Licenses and permits	90,065	-	90,065
State and local sources	943,644	553,242	1,496,886
Federal sources	56,027	450,000	506,027
Charges for services	229,701	-	229,701
Fines and forfeitures	31,532	-	31,532
Other	218,523	165,183	383,706
	<u>4,508,913</u>	<u>1,182,681</u>	<u>5,691,594</u>
Total revenue	4,508,913	1,182,681	5,691,594
Expenditures			
Current:			
General government	550,204	-	550,204
Public safety	2,504,585	6,904	2,511,489
Public works	661,187	919,863	1,581,050
Recreation and culture	175,392	-	175,392
Community and economic development	101,663	556,152	657,815
Capital outlay	83,404	-	83,404
Debt service:			
Principal retirement	-	90,000	90,000
Interest and fiscal charges	-	55,406	55,406
	<u>4,076,435</u>	<u>1,628,325</u>	<u>5,704,760</u>
Total expenditures	4,076,435	1,628,325	5,704,760
Excess of Revenue Over (Under) Expenditures	432,478	(445,644)	(13,166)
Other Financing Sources (Uses)			
Transfers in	-	430,556	430,556
Transfers out	(242,550)	(164,635)	(407,185)
	<u>(242,550)</u>	<u>265,921</u>	<u>23,371</u>
Total other financing sources (uses)	(242,550)	265,921	23,371
Net Changes in Fund Balances	189,928	(179,723)	10,205
Fund Balances - Beginning of year	<u>1,481,901</u>	<u>1,443,163</u>	<u>2,925,064</u>
Fund Balances - End of year	<u>\$ 1,671,829</u>	<u>\$ 1,263,440</u>	<u>\$ 2,935,269</u>

City of Charlotte, Michigan

Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2007

Net Change in Fund Balances - Total Governmental Funds	\$	10,205
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation		631,216
Depreciation on general capital assets is recorded in the statement of activities; it is not recorded at the fund level		(1,059,022)
Loss on the sale of capital assets is recorded in the statement of activities when capital assets are sold		(14,560)
Special assessment revenues are recorded in the statement of activities when the assessment is set; they are not reported in the funds until collected or collectible within 60 days of year end		(20,325)
Revenue reported in the statement of activities that does not provide current financial resources and is not reported as revenue in the governmental funds (GASB No. 33)		(25,155)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)		107,874
Interest expense is recorded in the statement of activities when incurred; it is not reported in the funds until paid or payable within 60 days of year end		473
Increase in accumulated employee sick and vacation pay, as well as estimated general liability claims, is recorded when earned in the statement of activities		(20,392)
Internal Service Funds are also included as governmental activities		<u>35,129</u>
Change in Net Assets of Governmental Activities	\$	<u>(354,557)</u>

City of Charlotte, Michigan

Proprietary Funds Statement of Net Assets June 30, 2007

	Business-type Activities			Governmental Activities Internal Service Fund
	Major Fund	Nonmajor Fund	Total	
	Water Supply and Sewage Disposal	Recycling		
Assets				
Current assets:				
Cash and investments (Note 3)	\$ 707,930	\$ 18,210	\$ 726,140	\$ 140,818
Receivables - Net (Note 4)	504,753	100	504,853	807
Inventories	51,586	-	51,586	-
Prepays and other assets	153,120	3,264	156,384	12,904
Total current assets	1,417,389	21,574	1,438,963	154,529
Noncurrent assets:				
Restricted assets - Cash and investments (Notes 3 and 8)	846,350	-	846,350	-
Net capital assets	17,279,680	-	17,279,680	684,244
Total assets	\$ 19,543,419	\$ 21,574	\$ 19,564,993	\$ 838,773
Liabilities				
Current liabilities:				
Accounts payable	\$ 43,165	\$ 436	\$ 43,601	\$ 3,746
Accrued liabilities	199,086	871	199,957	2,312
Current portion of long-term debt (Note 7)	490,000	-	490,000	-
Total current liabilities	732,251	1,307	733,558	6,058
Noncurrent liabilities - Long-term debt - Net of current portion (Note 7)	6,863,164	-	6,863,164	-
Total liabilities	7,595,415	1,307	7,596,722	6,058
Net Assets				
Investment in capital assets - Net of related debt	9,926,516	-	9,926,516	684,244
Restricted for debt service	846,350	-	846,350	-
Unrestricted	1,175,138	20,267	1,195,405	148,471
Total net assets	11,948,004	20,267	11,968,271	832,715
Total liabilities and net assets	\$ 19,543,419	\$ 21,574	\$ 19,564,993	\$ 838,773

City of Charlotte, Michigan

Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2007

	Business-type Activities			Governmental Activities
	Major Fund	Nonmajor Fund	Total	
	Water Supply and Sewage Disposal	Recycling		
				Internal Service Fund
Operating Revenue				
Water sales	\$ 912,385	\$ -	\$ 912,385	\$ -
Sewage charges	1,807,977	-	1,807,977	-
Tap fees	355,713	-	355,713	-
Recycling fees	-	20,278	20,278	-
Charges for services	-	-	-	371,182
Other	8,973	24,607	33,580	-
Total operating revenue	3,085,048	44,885	3,129,933	371,182
Operating Expenses				
Cost of services	1,905,570	-	1,905,570	245,118
Recycling	-	44,846	44,846	-
Depreciation	603,955	-	603,955	108,764
Total operating expenses	2,509,525	44,846	2,554,371	353,882
Operating Income	575,523	39	575,562	17,300
Nonoperating Revenue (Expenses)				
Investment income	82,447	905	83,352	6,829
Interest expense	(379,567)	-	(379,567)	-
Gain on disposal of assets	-	-	-	11,000
Total nonoperating revenue (expenses)	(297,120)	905	(296,215)	17,829
Income - Before contributions and transfers	278,403	944	279,347	35,129
Capital Contributions	204,681	-	204,681	-
Transfers to Other Funds	(23,371)	-	(23,371)	-
Changes in Net Assets	459,713	944	460,657	35,129
Net Assets - Beginning of year	11,488,291	19,323	11,507,614	797,586
Net Assets - End of year	<u>\$ 11,948,004</u>	<u>\$ 20,267</u>	<u>\$ 11,968,271</u>	<u>\$ 832,715</u>

City of Charlotte, Michigan

Proprietary Funds Statement of Cash Flows Year Ended June 30, 2007

	Business-type Activities			Govern- mental Activities	
	Major Fund	Nonmajor Fund	Total		Internal Service Fund
	Water Supply and Sewage Disposal	Recycling			
Cash Flows from Operating Activities					
Receipts from customers	\$ 3,100,769	\$ 44,919	\$ 3,145,688	\$ 371,056	
Payments to suppliers	(973,100)	(21,314)	(994,414)	(165,745)	
Payments to employees	(897,665)	(23,960)	(921,625)	(91,269)	
Net cash provided by (used in) operating activities	1,230,004	(355)	1,229,649	114,042	
Cash Flows from Noncapital Financing Activities - Transfers to/from other funds	(23,371)	-	(23,371)	-	
Cash Flows from Capital and Related Financing Activities					
Proceeds from sales of capital assets	-	-	-	11,000	
Purchase of capital assets	(354,941)	-	(354,941)	(71,939)	
Principal and interest paid on capital debt	(815,852)	-	(815,852)	-	
Net cash used in capital and related financing activities	(1,170,793)	-	(1,170,793)	(60,939)	
Cash Flows from Investing Activities - Interest received on investments	82,447	905	83,352	6,829	
Net Increase in Cash and Cash Equivalents	118,287	550	118,837	59,932	
Cash and Cash Equivalents - Beginning of year	1,435,993	17,660	1,453,653	80,886	
Cash and Cash Equivalents - End of year	<u>\$ 1,554,280</u>	<u>\$ 18,210</u>	<u>\$ 1,572,490</u>	<u>\$ 140,818</u>	
Balance Sheet Classification of Cash and Cash Equivalents					
Cash and investments	\$ 707,930	\$ 18,210	\$ 726,140	\$ 140,818	
Restricted assets - Cash and cash equivalents	846,350	-	846,350	-	
Total cash and cash equivalents	<u>\$ 1,554,280</u>	<u>\$ 18,210</u>	<u>\$ 1,572,490</u>	<u>\$ 140,818</u>	
Reconciliation of Operating Income to Net Cash from Operating Activities					
Operating income	\$ 575,523	\$ 39	\$ 575,562	\$ 17,300	
Adjustments to reconcile operating income to net cash from operating activities:					
Depreciation and amortization	603,955	-	603,955	108,764	
Changes in assets and liabilities:					
Receivables	15,721	34	15,755	(126)	
Other assets	15,749	(500)	15,249	(1,740)	
Accounts payable	25,934	136	26,070	(10,278)	
Accrued and other liabilities	(6,878)	(64)	(6,942)	122	
Net cash provided by (used in) operating activities	<u>\$ 1,230,004</u>	<u>\$ (355)</u>	<u>\$ 1,229,649</u>	<u>\$ 114,042</u>	

Noncash Investing, Capital, and Financing Activities - During the year ended June 30, 2007, developers contributed water lines and sewage improvements with a value of \$204,681 to the City.

City of Charlotte, Michigan

Fiduciary Funds Statement of Assets and Liabilities June 30, 2007

	Agency Fund
	<hr/>
Assets - Cash and cash equivalents	\$ 5,000
Liabilities - Accrued and other liabilities	\$ 5,000

City of Charlotte, Michigan

Component Units Statement of Net Assets June 30, 2007

	Downtown Development Authority	Local Development Financing Authority	Total
Assets			
Cash and investments	\$ 73,311	\$ 843,391	\$ 916,702
Accounts receivable	210	-	210
Accrued interest receivable	594	5,654	6,248
	<hr/>	<hr/>	<hr/>
Total assets	74,115	849,045	923,160
Liabilities - Accounts payable	<hr/>	<hr/>	<hr/>
	2,322	-	2,322
Net Assets - Unrestricted	<hr/>	<hr/>	<hr/>
	\$ 71,793	\$ 849,045	\$ 920,838

City of Charlotte, Michigan

Component Units Statement of Activities Year Ended June 30, 2007

	Net (Expense) Revenue and Changes in Net Assets			
	Expenses	Local		Total
		Downtown Development Authority	Development Financing Authority	
Downtown Development Authority	\$ 21,377	\$ (21,377)	\$ -	\$ (21,377)
Local Development Financing Authority	38,326	-	(38,326)	(38,326)
Total governmental activities	\$ 59,703	(21,377)	(38,326)	(59,703)
General Revenues				
Property taxes		53,566	161,239	214,805
Interest		2,910	37,541	40,451
Miscellaneous		1,500	62	1,562
Total general revenues		57,976	198,842	256,818
Change in Net Assets		36,599	160,516	197,115
Net Assets - Beginning of year		35,194	688,529	723,723
Net Assets - End of year		\$ 71,793	\$ 849,045	\$ 920,838

Note I - Summary of Significant Accounting Policies

The accounting policies of the City of Charlotte, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Charlotte, Michigan:

Reporting Entity

The City of Charlotte, Michigan is governed by an elected seven-member council and administered by an appointed city manager. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

Blended Component Units - The Building Authority is governed by a board that is appointed by the City Council. Although it is legally separate from the City, it is reported as if it were part of the primary government because its primary purpose is to finance and construct the City's public buildings.

Discretely Presented Component Units - The following component units are reported within the component units column in the statement of net assets. They are reported in a separate column to emphasize that they are legally separate from the City. More detailed information on each component unit is disclosed in the component units statement of net assets.

The Downtown Development Authority was established pursuant to P.A. 197 of 1975 for the purpose of revitalizing the downtown business district. The Authority's governing body, which consists of nine individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. The Authority uses governmental fund-type accounting. Financial statements for the Downtown Development Authority are available at the City.

The Local Development Financing Authority was established pursuant to P.A. 281 of 1986 for the purpose of developing and marketing an industrial park. The Authority's governing body, which consists of eight individuals, is appointed by the City Council. In addition, the Authority's annual budget is subject to review and approval by the City Council. The Authority uses governmental fund-type accounting. Financial statements for the Local Development Financing Authority are available at the City.

Note I - Summary of Significant Accounting Policies (Continued)

Government-wide and Fund Financial Statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component units. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

The statement of activities demonstrates the degree to which the direct expenses of a given function, or segment, are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Note I - Summary of Significant Accounting Policies (Continued)

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; receivables have been recorded for these, along with a "deferred revenue" liability.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

Noncurrent receivables, such as special assessments, are recorded at full value, and deferred revenue is recorded for the portion not available for use to finance operations as of year end. Interest income on special assessments receivable is not accrued until its due date.

Property Tax Revenue

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on September 1, at which time penalties and interest are assessed.

The City's 2005 tax is levied and collectible on July 1, 2006 and is recognized as revenue in the year ended June 30, 2007, when the proceeds of the levy are budgeted and available for the financing of operations.

The 2006 taxable valuation of the City totaled \$207,547,900 (a portion of which is captured by the LDFA and DDA), on which taxes levied consisted of 13.4173 mills and resulted in \$2,939,421 for operating purposes. These amounts are recognized in the General Fund financial statements as tax revenue.

Note I - Summary of Significant Accounting Policies (Continued)

The City reports the following major governmental fund:

General Fund - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The City reports the following major proprietary fund:

Water Supply and Sewage Disposal Fund - This fund is used to account for the operation of the City's water distribution, water treatment, sewage disposal, and sewage treatment systems; the construction and acquisition of additions and improvements to those systems; and contributions toward the payment of interest and principal on general obligation bonds issued to help finance the construction projects undertaken by this fund.

Additionally, the City reports the following fund types:

Internal Service Fund - The Internal Service Fund accounts for major machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis.

Agency Fund - The Agency Fund accounts for assets held by the City in a trustee capacity. Agency Funds are custodial in nature (assets equal liabilities) and do not involve the measurement of results of operations.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as program revenue include (1) charges to customers or applicants for goods, services, or privileges provided; (2) operating grants and contributions; and (3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

Note I - Summary of Significant Accounting Policies (Continued)

When an expense is incurred for purposes for which both restricted and unrestricted net assets are available, the City's policy is to first apply restricted resources.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water Supply and Sewage Disposal Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

Assets, Liabilities, and Net Assets or Equity

Bank Deposits and Investments - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value. Pooled investment income from the General Fund and the Water and Sewer Funds is generally allocated to each fund by a percentage of total investment value attributable to each fund.

Receivables and Payables - In general, outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances."

All trade and property tax receivables are shown as a net of allowance for uncollectible amounts.

Inventories and Prepaid Costs - Inventories are valued at cost, on a first-in, first-out basis. Inventories of governmental funds are recorded as expenditures when consumed rather than when purchased. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Restricted Assets - The revenue bonds of the Enterprise Funds require amounts to be set aside for construction, debt service principal and interest, operations and maintenance, and a bond reserve. These amounts have been classified as restricted assets, as well as amounts on deposit at the county being held for the construction or debt service of the City of Charlotte, Michigan's water and sewer lines.

Note I - Summary of Significant Accounting Policies (Continued)

Capital Assets - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$5,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, there was no interest expense capitalized as part of the cost of assets under construction.

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Infrastructure	25 to 50 years
Water and sewer buildings and systems	10 to 100 years
Buildings and building improvements	25 to 50 years
Vehicles	3 years
Equipment	5 to 10 years

Compensated Absences (Vacation and Sick Leave) - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. There is no liability for nonvested accumulated sick leave. All vacation pay and vested sick leave is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements.

Long-term Obligations - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

Note 1 - Summary of Significant Accounting Policies (Continued)

Fund Equity - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Comparative Data/Reclassifications - Comparative data is not included in the City's financial statements.

Note 2 - Stewardship, Compliance, and Accountability

Budgetary Information - Annual budgets are adopted on a basis consistent with accounting principles generally accepted in the United States of America for the General Fund and Special Revenue Funds. All annual appropriations lapse at fiscal year end. Charter provisions require department head budget submissions by the second Monday in February, submission of the budget to Council by the second Monday in April, and adoption of the budget by the third Monday in May. The budget document presents information by fund, function, department, and line items. The legal level of budgetary control adopted by the governing body is the activity level.

Amounts encumbered for purchase orders, contracts, etc. are not tracked during the year. Budget appropriations are considered to be spent once the goods are delivered or the services rendered.

A comparison of the budget with statements of actual revenues and expenditures, including budget variances, for the General Fund is presented as required supplemental information; a comparison of budget to actual revenue and expenditures for all other governmental funds is reported as other supplemental information.

Excess of Expenditures Over Appropriations in Budgeted Funds - The City did not have significant expenditure budget variances.

The Grants nonmajor Special Revenue Fund had an unreserved fund deficit at June 30, 2007 of \$63,760. This deficit relates to the timing of the receipt of grant revenue.

Note 3 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated five banks for the deposit of its funds. The investment policy adopted by the board in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of state statutory authority as listed above.

The City's cash and investments are subject to two types of risk, which are examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned to it. The City does not have a deposit policy for custodial credit risk. At year end, the City had \$3,390,847 of bank deposits (certificates of deposit, checking, and savings accounts) that were uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the City 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.

The component units' deposits had a bank balance of \$816,688, of which \$122,939 was covered by federal depository insurance and \$693,749 was uninsured and uncollateralized.

Credit Risk

As of year end, the City had \$1,515,044 invested in bank investment pools with a rating of Aaa by Standard and Poor's. The City's investment policy does not limit credit risk beyond that imposed by state law.

Note 4 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Water and Sewer Fund	Nonmajor Funds	Total
Receivables:				
Intergovernmental	\$ 282,937	\$ -	\$ 90,019	\$ 372,956
Special assessments	-	-	47,249	47,249
Accounts	86,336	499,666	6,694	592,696
Interest and other	7,462	5,087	7,835	20,384
Net receivables	<u>\$ 376,735</u>	<u>\$ 504,753</u>	<u>\$ 151,797</u>	<u>\$ 1,033,285</u>

Governmental funds report deferred revenue in connection with receivables for revenue that is not considered to be available to liquidate liabilities of the current period. Governmental funds also defer revenue recognition in connection with resources that have been received but not yet earned. At the end of the current fiscal year, deferred revenue consists of special assessments, state-shared revenue, and grants that are unavailable in the amount of \$47,249, \$157,096, and \$63,450, respectively.

City of Charlotte, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2006	Additions	Disposals and Adjustments	Balance June 30, 2007
Governmental Activities				
Capital assets not being depreciated:				
Land	\$ 1,860,936	\$ -	\$ 14,560	\$ 1,846,376
Construction in progress	<u>68,944</u>	<u>29,927</u>	<u>34,106</u>	<u>64,765</u>
Subtotal	1,929,880	29,927	48,666	1,911,141
Capital assets being depreciated:				
Infrastructure	22,306,419	590,848	-	22,897,267
Buildings and improvements	2,703,800	-	-	2,703,800
Vehicles	2,097,657	71,939	51,602	2,117,994
Equipment	<u>2,705,180</u>	<u>44,548</u>	<u>35,672</u>	<u>2,714,056</u>
Subtotal	29,813,056	707,335	87,274	30,433,117
Accumulated depreciation:				
Infrastructure	8,738,847	853,078	-	9,591,925
Buildings and improvements	1,322,683	55,201	-	1,377,884
Vehicles	1,376,588	108,764	51,602	1,433,750
Equipment	<u>1,857,182</u>	<u>150,743</u>	<u>35,672</u>	<u>1,972,253</u>
Subtotal	<u>13,295,300</u>	<u>1,167,786</u>	<u>87,274</u>	<u>14,375,812</u>
Net capital assets being depreciated	<u>16,517,756</u>	<u>(460,451)</u>	<u>-</u>	<u>16,057,305</u>
Net capital assets	<u>\$ 18,447,636</u>	<u>\$ (430,524)</u>	<u>\$ 48,666</u>	<u>\$ 17,968,446</u>
Business-type Activities				
Capital assets not being depreciated -				
Land	\$ 104,995	\$ -	\$ -	\$ 104,995
Capital assets being depreciated - Buildings and systems	26,059,571	559,622	27,177	26,592,016
Accumulated depreciation - Buildings and systems	<u>8,840,553</u>	<u>603,955</u>	<u>27,177</u>	<u>9,417,331</u>
Net capital assets being depreciated	<u>17,219,018</u>	<u>(44,333)</u>	<u>-</u>	<u>17,174,685</u>
Net capital assets	<u>\$ 17,324,013</u>	<u>\$ (44,333)</u>	<u>\$ -</u>	<u>\$ 17,279,680</u>

City of Charlotte, Michigan

Notes to Financial Statements June 30, 2007

Note 5 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 58,456
Public safety	96,425
Public works	818,739
Community and economic development	2,588
Recreation and culture	82,814
Internal Service Fund depreciation is charged to the various functions based on their usage of the asset	<u>108,764</u>

Total governmental activities \$ 1,167,786

Business-type activities:

Water	\$ 125,467
Sewer	<u>478,488</u>

Total business-type activities \$ 603,955

Construction Commitments - As of June 30, 2007, the City has outstanding commitments with contractors for road construction projects in the amount of \$689,000.

Note 6 - Interfund Transfers

Interfund transfers reported in the fund financial statements are comprised of the following:

<u>Fund Providing Resources</u>	<u>Fund Receiving Resources</u>	<u>Amount</u>
General Fund	Nonmajor Special Revenue Fund	\$ 32,100
General Fund	Nonmajor Special Revenue Fund	159,000
General Fund	Nonmajor Special Revenue Fund	4,000
General Fund	Nonmajor Debt Service Fund	47,450
Nonmajor Special Revenue Fund	Nonmajor Special Revenue Fund	89,500
Nonmajor Special Revenue Fund	Nonmajor Debt Service Fund	45,081
Nonmajor Special Revenue Fund	Nonmajor Debt Service Fund	30,054
Water Supply and Sewage Disposal Fund	Nonmajor Debt Service Fund	<u>23,371</u>
Total		<u>\$ 430,556</u>

Note 6 - Interfund Transfers (Continued)

The transfers from the General Fund to the Major and Local Street Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; the transfers from the Major Streets and Local Streets Funds to the Debt Service Fund represent the movement of resources to be used to service Major Streets and Local Streets Fund debt, respectively; the transfer from the Water and Sewer Fund to the Debt Service Fund represents the movement of resources to be used to service the Building Authority debt.

Note 7 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. A county contractual agreement is also a general obligation of the government. Revenue bonds involve a pledge of specific income derived from the acquired or constructed assets to pay debt service.

Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Maturing Through	Beginning Balance	Additions	Reductions	Ending Balance	Due Within One Year
Governmental Activities							
General obligation bonds:							
Building Authority Bonds - Series 2001 (Limited Tax General Obligation) Bonds	4.3% - 5.1%	2016	\$ 545,000	\$ -	\$ 45,000	\$ 500,000	\$ 45,000
Michigan Transportation Fund Bonds - Series 2001 (Limited Tax General Obligation) Bonds	4.5% - 5.3%	2017	625,000	-	45,000	580,000	45,000
Economic Development Agreement	-	2017	183,204	-	17,874	165,330	17,874
Other long-term obligations - Compensated absences			<u>296,628</u>	<u>20,392</u>	<u>-</u>	<u>317,020</u>	<u>139,932</u>
Total governmental activities			<u>\$ 1,649,832</u>	<u>\$ 20,392</u>	<u>\$ 107,874</u>	<u>\$ 1,562,350</u>	<u>\$ 247,806</u>
Business-type Activities							
County Bond Obligations - County of Eaton 1996 Water and Sewer Bonds	4.375%	2011	\$ 990,000	\$ -	\$ 185,000	\$ 805,000	\$ 195,000
Revenue bonds:							
1999 Revenue Bonds - Water Supply and Sewage Disposal System	5.2%	2009	760,000	-	240,000	520,000	255,000
2005 Revenue Refunding Bonds - Water Supply and Sewage Disposal System - Net of loss on refunding of \$461,836	3.0% - 4.25%	2024	<u>6,039,449</u>	<u>-</u>	<u>11,285</u>	<u>6,028,164</u>	<u>40,000</u>
Total business-type activities			<u>\$ 7,789,449</u>	<u>\$ -</u>	<u>\$ 436,285</u>	<u>\$ 7,353,164</u>	<u>\$ 490,000</u>

Note 7 - Long-term Debt (Continued)

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2008	\$ 107,874	\$ 51,513	\$ 159,387	\$ 490,000	\$ 319,068	\$ 809,068
2009	112,874	47,530	160,404	510,000	296,078	806,078
2010	117,874	43,120	160,994	530,000	272,198	802,198
2011	122,874	38,375	161,249	540,000	251,856	791,856
2012	127,874	33,407	161,281	350,000	231,160	581,160
2013-2017	655,960	77,060	733,020	1,950,000	951,750	2,901,750
2018-2022	-	-	-	2,360,000	529,792	2,889,792
2023-2024	-	-	-	1,085,000	69,700	1,154,700
Total	1,245,330	291,005	1,536,335	7,815,000	2,921,602	10,736,602
Less unamortized loss on refunding	-	-	-	(461,836)	-	(461,836)
Total bonds payable	<u>\$ 1,245,330</u>	<u>\$ 291,005</u>	<u>\$ 1,536,335</u>	<u>\$ 7,353,164</u>	<u>\$ 2,921,602</u>	<u>\$ 10,274,766</u>

Advance and Current Refundings - During 2006, the City issued \$6,570,000 in revenue refunding bonds with an average interest rate of 3.0 percent to 4.25 percent. The proceeds of these bonds were used to advance refund \$6,180,000 of outstanding 1999 Water Supply and Sewage Disposal System revenue bonds with an average interest rate of 5.2 percent. The net proceeds of \$6,453,547 (after payment of \$141,629 in underwriting fees, insurance, and other issuance costs) plus an additional \$84,551 of Reserve and Debt Fund monies were used to purchase U.S. government securities. Those securities were deposited in an irrevocable trust with an escrow agent to provide for all future debt service payments on the original bonds. As a result, the bonds are considered to be defeased and the liability for the bonds was removed from the Water Supply and Sewage Disposal System Fund statement of net assets. The advance refunding reduced total debt service payments over the next 18 years by approximately \$603,000, which represents an economic gain of approximately \$368,000.

Note 8 - Restricted Assets

The balances of the restricted asset accounts are as follows:

	Governmental Activities	Business-type Activities
	<u> </u>	<u> </u>
Operation and Maintenance Fund	\$ -	\$ 216,802
Bond and Interest Redemption Fund	2,360	48,238
Bond Reserve Account	<u>-</u>	<u>581,310</u>
Total restricted assets	<u>\$ 2,360</u>	<u>\$ 846,350</u>

Operation and Maintenance Fund - The Water Supply and Sewage Disposal System is required to maintain cash sufficient to provide for operation and maintenance of the system.

Bond and Interest Redemption Fund - This fund represents cash to be used for the current principal and interest due in the Water Supply and Sewage Disposal System.

Bond Reserve Account - The Water Supply and Sewage Disposal System is required to maintain cash to be used solely for the payment of principal and interest when there would otherwise be default.

Note 9 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical benefit claims and error and omissions, and participates in the Michigan Municipal League risk pool for claims relating to property loss, torts, and workers' compensation. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

Note 10 - Defined Benefit Pension Plan

Plan Description - The City participates in the Michigan Municipal Employees' Retirement System (MERS), an agent multiple-employer defined benefit pension plan that covers all employees. The MERS provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees' Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the MERS. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the MERS for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 0.0 percent to 10.03 percent of gross wages for the various groups.

Annual Pension Cost - For the year ended June 30, 2007, the City's annual pension cost of \$296,717 for the plan was equal to the City's required and actual contributions. The annual required contribution was determined as part of an actuarial valuation at December 31, 2006, using the entry actual age cost method. Significant actuarial assumptions used include (a) an 8.0 percent investment rate of return, (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation, (c) additional projected salary increases of 0.0 percent to 8.40 percent per year, depending on age, attributable to seniority/merit, and (d) the assumption that benefits will increase 2.5 percent per year after retirement, for persons selecting certain benefit options. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a five-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 29 years.

	Fiscal Year Ended June 30		
	2005	2006	2007
General Employees' Retirement System:			
Annual pension costs (APC)	\$ 209,689	\$ 266,369	\$ 296,717
Percentage of APC contributed	100%	100%	100%
Net pension obligation	-	-	-

Note 10 - Defined Benefit Pension Plan (Continued)

	Actuarial Valuation as of December 31		
	2004	2005	2006
Actuarial value of assets	\$ 10,293,032	\$ 10,699,124	\$ 11,297,810
Actuarial accrued liability - Entry age	12,698,375	13,679,913	14,521,558
Unfunded AAL (UAAL)	2,405,343	2,980,789	3,223,748
Funded ratio	81%	78%	78%
Covered payroll	2,534,233	2,474,754	2,518,893
UAAL as a percentage of covered payroll	95%	120%	128%

Note 11 - Construction Code Fees

The City oversees building construction, in accordance with the State's Construction Code Act, including inspections of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that collection of these fees be used only for the construction code costs, including an allocation of estimated overhead costs.

A summary of the current year activity and the cumulative surplus or shortfall generated since January 1, 2000 is as follows:

Cumulative shortfall - June 30, 2006	\$ (603,163)
Current year building permit revenue	77,515
Related expenses	<u>(154,149)</u>
Cumulative shortfall - June 30, 2007	<u>\$ (679,797)</u>

Note 12 - Other Postemployment Benefits

The City has elected to provide postemployment health benefits to certain retirees and their beneficiaries. The government pays the full cost of coverage for these benefits. Also, retirees can purchase coverage for their dependents at the City's group rates. Currently, 13 retirees are eligible for postemployment health benefits. For the fiscal year ended June 30, 2007, the City made payments for postemployment health benefits of \$126,340. The government obtains healthcare coverage through private insurers.

Note 12 - Other Postemployment Benefits (Continued)

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Post-employment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any “other” postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health-care coverage over the working life of the employee, rather than at the time the health-care premiums are paid. The new pronouncement is effective for the year beginning July 1, 2009.

Note 13 - Lincoln Park

The City purchased a parcel of property that was previously classified as a contaminated site by the State of Michigan. The Michigan Department of Environmental Quality (MDEQ) incurred approximately \$1.2 million in clean-up costs. The State is pursuing reimbursement from the property’s previous owners who were responsible for the contamination. Given these circumstances, a liability has not been recorded in the financial statements.

Upcoming Reporting Change - The Governmental Accounting Standards Board has recently released Statement Number 49, *Accounting and Financial Reporting for Pollution Remediation Obligations*. The new pronouncement provides guidance for local units of government to identify circumstances under which a liability would be recorded related to pollution remediation. The new rules will cause the government-wide financial statements to recognize an estimate of the expected outlays for pollution remediation if it knows a site is polluted and/or if the government is responsible for the costs related to the cleanup. The new pronouncement is effective for the year beginning after December 15, 2007.

Note 14 - Embassy Apartments

The City has entered into an agreement to construct a residential apartment complex for the promotion of economic growth and development within the City. The agreement includes the sale of 10 acres of property to the City and a special assessment levy not to exceed \$629,600, plus the costs incurred by the City in issuing a bond in anticipation of the collection of the special assessment. If construction does not commence by December 31, 2007, the agreement will be terminated.

Required Supplemental Information

City of Charlotte, Michigan

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2007

	Original Budget (Activity Level)	Amended Budget (Activity Level)	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 1,481,901	\$ 1,481,901	\$ 1,481,901	\$ -
Resources (Inflows)				
Property taxes	2,871,000	2,871,000	2,939,421	68,421
Licenses and permits	40,050	40,050	90,065	50,015
Intergovernmental	981,600	981,600	999,671	18,071
Charges for services	206,300	206,300	229,701	23,401
Fines and forfeitures	28,250	28,250	31,532	3,282
Other	135,500	135,500	218,523	83,023
Total resources (inflows)	4,262,700	4,262,700	4,508,913	246,213
Charges to Appropriations (Outflows)				
General government	606,665	606,665	558,271	(48,394)
Public safety	2,642,793	2,642,793	2,560,571	(82,222)
Public works	705,787	705,787	671,355	(34,432)
Recreation and culture	207,990	207,990	184,387	(23,603)
Community and economic development	109,678	109,678	101,851	(7,827)
Transfers to other funds	242,550	242,550	242,550	-
Total charges to appropriations (outflows)	4,515,463	4,515,463	4,318,985	(196,478)
Fund Balance - End of year	<u>\$ 1,229,138</u>	<u>\$ 1,229,138</u>	<u>\$ 1,671,829</u>	<u>\$ 442,691</u>

Other Supplemental Information

Nonmajor Governmental Funds

Major Street Fund - This fund is used to control the expenditure of motor fuel taxes and trunkline maintenance funds, which are earmarked by law and the state constitution for major street and highway purposes.

Local Street Fund - This fund is used to control the expenditure of motor fuel taxes, which are earmarked by law and the state constitution for local street and highway purposes.

Industrial Park Fund - This fund is used to control the expenditure of monies earmarked for the City's industrial park.

Police Training Fund - This fund is used to control the expenditure of state grant monies, which are earmarked for the continued training of police officers.

Drug Enforcement Fund - This fund is used to control the expenditures of monies earmarked for the local D.A.R.E. program.

Grant Fund - This fund is used to control the expenditure of federal grant monies, which are earmarked for job training within the community.

Building Authority Bond Fund - This fund is used for payment of the 2001 Building Authority Bonds issued to cover \$375,000 of construction costs of a new DPW facility and renovations to the existing structure.

Michigan Transportation Bond Fund - This fund is used for payment of the 2001 Michigan Transportation Bonds issued to cover \$775,000 of construction costs and street resurfacing.

City of Charlotte, Michigan

	Special Revenue Funds					
	Major Street	Local Street	Industrial Park	Police Training	Drug Enforcement	Grant
Assets						
Cash and investments	\$ 650,700	\$ 322,569	\$ 249,782	\$ 14,546	\$ 9,285	\$ -
Receivables - Net	14,559	44,843	1,417	-	52	-
Prepaid costs and other assets	1,966	2,140	306	-	-	-
Due from other governmental units	58,856	23,775	-	-	-	7,388
Restricted assets - Cash and investments	-	-	-	-	-	-
Total assets	<u>\$ 726,081</u>	<u>\$ 393,327</u>	<u>\$ 251,505</u>	<u>\$ 14,546</u>	<u>\$ 9,337</u>	<u>\$ 7,388</u>
Liabilities and Fund Balances						
Liabilities						
Accounts payable	\$ 14,579	\$ 53	\$ 1,086	\$ 59	\$ -	\$ 7,698
Accrued and other liabilities	2,459	3,178	1,293	-	-	-
Deferred revenue	9,831	37,418	-	-	-	63,450
Total liabilities	26,869	40,649	2,379	59	-	71,148
Fund Balances						
Reserved:						
Debt service	-	-	-	-	-	-
Law enforcement	-	-	-	14,487	9,337	-
Unreserved - Special revenue	699,212	352,678	249,126	-	-	(63,760)
Total fund balances	699,212	352,678	249,126	14,487	9,337	(63,760)
Total liabilities and fund balances	<u>\$ 726,081</u>	<u>\$ 393,327</u>	<u>\$ 251,505</u>	<u>\$ 14,546</u>	<u>\$ 9,337</u>	<u>\$ 7,388</u>

**Other Supplemental Information
Combining Balance Sheet
Nonmajor Governmental Funds
June 30, 2007**

Debt Service Funds		
Building Authority Bond	Michigan Transportation Bond	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 1,246,882
-	-	60,871
-	-	4,412
-	-	90,019
<u>2,277</u>	<u>83</u>	<u>2,360</u>
<u>\$ 2,277</u>	<u>\$ 83</u>	<u>\$ 1,404,544</u>
\$ -	\$ -	\$ 23,475
-	-	6,930
<u>-</u>	<u>-</u>	<u>110,699</u>
-	-	141,104
2,277	83	2,360
-	-	23,824
<u>-</u>	<u>-</u>	<u>1,237,256</u>
<u>2,277</u>	<u>83</u>	<u>1,263,440</u>
<u>\$ 2,277</u>	<u>\$ 83</u>	<u>\$ 1,404,544</u>

City of Charlotte, Michigan

	Special Revenue Funds					
	Major Street	Local Street	Industrial Park	Police Training	Drug Enforcement	Grants
Revenue						
State sources	\$ 404,294	\$ 144,791	\$ -	\$ 4,157	\$ -	\$ -
Federal sources	-	-	-	-	-	450,000
Special assessments	3,230	11,026	-	-	-	-
Other	<u>31,653</u>	<u>23,520</u>	<u>106,360</u>	<u>-</u>	<u>3,960</u>	<u>(310)</u>
Total revenue	439,177	179,337	106,360	4,157	3,960	449,690
Expenditures						
Current:						
Public safety department	-	-	-	3,979	2,925	-
Public works department	508,394	411,469	-	-	-	-
Community and economic development	-	-	42,152	-	-	513,450
Debt service:						
Principal retirement	-	-	-	-	-	-
Interest and fiscal charges	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>508,394</u>	<u>411,469</u>	<u>42,152</u>	<u>3,979</u>	<u>2,925</u>	<u>513,450</u>
Excess of Revenue Over (Under) Expenditures	(69,217)	(232,132)	64,208	178	1,035	(63,760)
Other Financing Sources (Uses)						
Transfers in	32,100	248,500	-	4,000	-	-
Transfers out	<u>(134,581)</u>	<u>(30,054)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(102,481)</u>	<u>218,446</u>	<u>-</u>	<u>4,000</u>	<u>-</u>	<u>-</u>
Net Changes in Fund Balances	(171,698)	(13,686)	64,208	4,178	1,035	(63,760)
Fund Balances - Beginning of year	<u>870,910</u>	<u>366,364</u>	<u>184,918</u>	<u>10,309</u>	<u>8,302</u>	<u>-</u>
Fund Balances - End of year	<u>\$ 699,212</u>	<u>\$ 352,678</u>	<u>\$ 249,126</u>	<u>\$ 14,487</u>	<u>\$ 9,337</u>	<u>\$ (63,760)</u>

Other Supplemental Information
Combining Statement of Revenue, Expenditures, and Changes
in Fund Balances - Nonmajor Governmental Funds
Year Ended June 30, 2007

Debt Service Funds		
Building Authority Bond	Michigan Transportation Bond	Total Nonmajor Governmental Funds
\$ -	\$ -	\$ 553,242
-	-	450,000
-	-	14,256
-	-	165,183
-	-	1,182,681
-	-	6,904
-	-	919,863
275	275	556,152
45,000	45,000	90,000
25,546	29,860	55,406
<u>70,821</u>	<u>75,135</u>	<u>1,628,325</u>
(70,821)	(75,135)	(445,644)
70,821	75,135	430,556
-	-	(164,635)
<u>70,821</u>	<u>75,135</u>	<u>265,921</u>
-	-	(179,723)
<u>2,277</u>	<u>83</u>	<u>1,443,163</u>
<u>\$ 2,277</u>	<u>\$ 83</u>	<u>\$ 1,263,440</u>

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Major Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 870,910	\$ 870,910	\$ 870,910	\$ -
Resources (Inflows)				
State sources	399,000	399,000	404,294	5,294
Special assessments	3,000	3,000	3,230	230
Other	25,300	25,300	31,653	6,353
Transfer from other funds	<u>32,100</u>	<u>32,100</u>	<u>32,100</u>	<u>-</u>
Total resources (inflows)	459,400	459,400	471,277	11,877
Charges to Appropriations (Outflows) -				
Public works				
Street maintenance	664,725	664,725	508,394	(156,331)
Transfers to other funds	<u>136,081</u>	<u>136,081</u>	<u>134,581</u>	<u>(1,500)</u>
Total charges to appropriations (outflows)	<u>800,806</u>	<u>800,806</u>	<u>642,975</u>	<u>(157,831)</u>
Fund Balance - End of year	<u>\$ 529,504</u>	<u>\$ 529,504</u>	<u>\$ 699,212</u>	<u>\$ 169,708</u>

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Local Street Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 366,364	\$ 366,364	\$ 366,364	\$ -
Resources (Inflows)				
State sources	146,000	146,000	144,791	(1,209)
Special assessments	23,638	23,638	11,026	(12,612)
Other	16,000	16,000	23,520	7,520
Transfer from other funds	250,000	250,000	248,500	(1,500)
Total resources (inflows)	435,638	435,638	427,837	(7,801)
Charges to Appropriations (Outflows) -				
Public works				
Street maintenance	456,285	456,285	411,469	(44,816)
Transfers to other funds	30,054	30,054	30,054	-
Total charges to appropriations (outflows)	486,339	486,339	441,523	(44,816)
Fund Balance - End of year	\$ 315,663	\$ 315,663	\$ 352,678	\$ 37,015

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Industrial Park Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 184,918	\$ 184,918	\$ 184,918	\$ -
Resources (Inflows) - Other	5,000	5,000	106,360	101,360
Charges to Appropriations (Outflows) - General government - Community and economic development	51,931	51,931	42,152	(9,779)
Fund Balance - End of year	\$ 137,987	\$ 137,987	\$ 249,126	\$ 111,139

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Police Training Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 10,309	\$ 10,309	\$ 10,309	\$ -
Resources (Inflows)				
State sources	4,000	4,000	4,157	157
Transfer from other funds	<u>4,000</u>	<u>4,000</u>	<u>4,000</u>	<u>-</u>
Total resources (inflows)	8,000	8,000	8,157	157
Charges to Appropriations (Outflows) -				
Public safety - Police	<u>8,000</u>	<u>8,000</u>	<u>3,979</u>	<u>(4,021)</u>
Fund Balance - End of year	<u>\$ 10,309</u>	<u>\$ 10,309</u>	<u>\$ 14,487</u>	<u>\$ 4,178</u>

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Drug Enforcement Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 8,302	\$ 8,302	\$ 8,302	\$ -
Resources (Inflows)				
Interest income	150	150	416	266
Other	3,000	3,000	3,544	544
Total resources (inflows)	3,150	3,150	3,960	810
Charges to Appropriations (Outflows) -				
Public safety - Police	4,000	4,000	2,925	(1,075)
Fund Balance - End of year	\$ 7,452	\$ 7,452	\$ 9,337	\$ 1,885

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Grant Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ -	\$ -	\$ -	\$ -
Resources (Inflows)				
Federal sources	-	450,000	450,000	-
Other	-	-	(310)	(310)
Total resources (inflows)	-	450,000	449,690	(310)
Charges to Appropriations (Outflows) -				
Community and economic development	-	450,000	513,450	63,450
Fund Balance - End of year	\$ -	\$ -	\$ (63,760)	\$ (63,760)

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Building Authority Bond Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 2,277	\$ 2,277	\$ 2,277	\$ -
Resources (Inflows) - Transfer from other funds	70,821	70,821	70,821	-
Charges to Appropriations (Outflows) -				
Debt service				
Principal	45,000	45,000	45,000	-
Interest	25,546	25,546	25,546	-
Other	275	275	275	-
Total charges to appropriations (outflows)	<u>70,821</u>	<u>70,821</u>	<u>70,821</u>	<u>-</u>
Fund Balance - End of year	<u><u>\$ 2,277</u></u>	<u><u>\$ 2,277</u></u>	<u><u>\$ 2,277</u></u>	<u><u>\$ -</u></u>

City of Charlotte, Michigan

Other Supplemental Information Budgetary Comparison Schedule - Michigan Transportation Bond Fund Year Ended June 30, 2007

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Fund Balance - Beginning of year	\$ 83	\$ 83	\$ 83	\$ -
Resources (Inflows) - Transfer from other funds	75,135	75,135	75,135	-
Charges to Appropriations (Outflows) -				
Debt service				
Principal	45,000	45,000	45,000	-
Interest	29,860	29,860	29,860	-
Other	275	275	275	-
Total charges to appropriations (outflows)	75,135	75,135	75,135	-
Fund Balance - End of year	\$ 83	\$ 83	\$ 83	\$ -

City of Charlotte, Michigan

Other Supplemental Information Statement of Changes in Assets and Liabilities Agency Funds Year Ended June 30, 2007

	Balance July 1, 2006	Additions	Deductions	Balance June 30, 2007
Assets - Cash	<u>\$ 5,160</u>	<u>\$ 20,447,705</u>	<u>\$ 20,447,865</u>	<u>\$ 5,000</u>
Liabilities				
Due to other funds	\$ 5,000	\$ -	\$ -	\$ 5,000
Taxes collected in advance	160		160	-
Fire insurance withholding	-	7,304	7,304	-
Due to other governmental units	-	10,292,539	10,292,539	-
	<u>-</u>	<u>10,292,539</u>	<u>10,292,539</u>	<u>-</u>
Total liabilities	<u>\$ 5,160</u>	<u>\$ 10,299,843</u>	<u>\$ 10,300,003</u>	<u>\$ 5,000</u>

Statistical Section

Statistical Section

This part of the Comprehensive Annual Financial Report presents detailed information as a context for understanding what the information in the financial statements, note disclosures, and required supplementary information says about the City's overall financial health.

The statistical section is organized into the following main categories:

- Financial trends
- Revenue capacity
- Debt capacity
- Demographic and economic information
- Operating information

Financial Trends

These schedules contain trend information to help the reader understand how the City's financial performance and well-being have changed over time.

City of Charlotte, Michigan

Net Assets by Component Last Four Fiscal Years

	2004	2005	2006	2007
Governmental Activities				
Invested in capital assets - Net of related debt	\$ 18,452,965	\$ 17,874,974	\$ 17,277,656	\$ 16,888,466
Restricted	824,648	978,085	1,258,245	1,078,074
Unrestricted	<u>1,596,273</u>	<u>1,756,948</u>	<u>1,570,373</u>	<u>1,785,177</u>
Total net assets	<u>\$ 20,873,886</u>	<u>\$ 20,610,007</u>	<u>\$ 20,106,274</u>	<u>\$ 19,751,717</u>
Business-type Activities				
Invested in capital assets - Net of related debt	\$ 9,365,591	\$ 9,533,904	\$ 9,534,564	\$ 9,926,516
Restricted	918,355	865,171	840,427	846,350
Unrestricted	<u>697,316</u>	<u>760,980</u>	<u>1,132,623</u>	<u>1,195,405</u>
Total net assets	<u>\$ 10,981,262</u>	<u>\$ 11,160,055</u>	<u>\$ 11,507,614</u>	<u>\$ 11,968,271</u>
Primary Government in Total				
Invested in capital assets - Net of related debt	\$ 27,818,556	\$ 27,408,878	\$ 26,812,220	\$ 26,814,982
Restricted	1,743,003	1,843,256	2,098,672	1,924,424
Unrestricted	<u>2,293,589</u>	<u>2,517,928</u>	<u>2,702,996</u>	<u>2,980,582</u>
Total net assets	<u>\$ 31,855,148</u>	<u>\$ 31,770,062</u>	<u>\$ 31,613,888</u>	<u>\$ 31,719,988</u>

Note: The City implemented GASB 34 in 2004; therefore, net assets for governmental activities is not available before 2004.

City of Charlotte, Michigan

Changes in Governmental Net Assets Last Four Fiscal Years

	2004	2005	2006	2007
Expenses				
General government	\$ 592,841	\$ 609,254	\$ 650,757	\$ 606,810
Public safety	2,384,339	2,542,149	2,612,572	2,647,674
Public works	2,043,849	1,930,962	1,811,206	1,789,658
Community and economic development	182,540	275,397	169,232	643,206
Recreation and culture	224,200	54,924	185,789	211,174
Interest on long-term debt	64,845	62,873	57,357	54,933
Total governmental activities	5,492,614	5,475,559	5,486,913	5,953,455
Program Revenues				
Charges for services:				
General government	233,134	160,466	225,066	218,433
Public safety	220,660	161,416	155,155	190,175
Public works	380,681	366,987	362,519	358,457
Total charges for services	834,475	688,869	742,740	767,065
Operating grants and contributions	11,906	68,890	36,461	487,270
Capital grants and contributions	385,150	562,252	203,004	14,256
Total program revenues	1,231,531	1,320,011	982,205	1,268,591
Net Expenses	(4,261,083)	(4,155,548)	(4,504,708)	(4,684,864)
General Revenues				
Property taxes	2,491,783	2,612,177	2,712,501	2,919,096
State-shared revenues	1,301,276	1,095,448	1,096,527	1,043,178
Investment earnings	30,308	41,934	113,513	178,226
Miscellaneous	47,825	119,310	56,164	166,436
Total general revenues	3,871,192	3,868,869	3,978,705	4,306,936
Transfers	23,448	22,800	22,270	23,371
Change in Net Assets	<u>\$ (366,443)</u>	<u>\$ (263,879)</u>	<u>\$ (503,733)</u>	<u>\$ (354,557)</u>

Note: The City implemented GASB 34 in 2004; therefore, changes in net assets for governmental activities are not available before 2004.

City of Charlotte, Michigan

	1998	1999	2000	2001
Operating Revenue				
Water sales	\$ 467,219	\$ 523,034	\$ 678,011	\$ 816,552
Sewage charges	866,060	949,659	1,370,640	1,633,312
Tap fees	12,664	169,648	299,666	269,699
Recycling fees	46,522	61,861	20,086	21,660
Other	36,470	13,785	69,860	34,797
Total operating revenue	1,428,935	1,717,987	2,438,263	2,776,020
Operating Expenses				
Cost of services	1,215,395	1,367,442	1,619,150	1,447,704
Recycling	38,556	59,430	44,152	43,699
Depreciation	304,087	350,191	343,790	255,455
Total operating expenses	1,558,038	1,777,063	2,007,092	1,746,858
Operating Income (Loss)	(129,103)	(59,076)	431,171	1,029,162
Nonoperating Revenue (Expenses)				
Investment income	91,438	64,232	335,444	486,405
Interest expense	(118,026)	(111,389)	(434,053)	(337,016)
Total nonoperating revenue (expenses)	(26,588)	(47,157)	(98,609)	149,389
Income (Loss) - Before contributions and other items	(155,691)	(106,233)	332,562	1,178,551
Capital Contributions	215,311	215,311	216,571	1,561,773
Transfers to (from) Other Funds	-	-	5,723	-
Change in Net Assets	\$ 59,620	\$ 109,078	\$ 554,856	\$ 2,740,324

**Changes in Business-type Net Assets
Last Ten Fiscal Years**

2002	2003	2004	2005	2006	2007
\$ 867,471	\$ 874,286	\$ 871,133	\$ 898,846	\$ 930,983	\$ 912,385
1,787,920	1,763,688	1,751,363	1,827,475	1,860,641	1,807,977
351,595	198,448	261,613	128,602	66,556	355,713
22,401	16,532	14,011	14,855	15,645	20,278
49,184	37,240	40,553	8,559	56,544	33,580
3,078,571	2,890,194	2,938,673	2,878,337	2,930,369	3,129,933
1,599,276	1,641,493	1,739,638	1,734,836	1,764,385	1,905,570
44,076	45,861	55,816	49,196	49,590	44,846
387,858	554,626	567,541	591,980	600,098	603,955
2,031,210	2,241,980	2,362,995	2,376,012	2,414,073	2,554,371
1,047,361	648,214	575,678	502,325	516,296	575,562
94,161	24,942	11,856	25,632	77,501	83,352
(187,788)	(502,283)	(482,854)	(462,249)	(346,422)	(379,567)
(93,627)	(477,341)	(470,998)	(436,617)	(268,921)	(296,215)
953,734	170,873	104,680	65,708	247,375	279,347
566,614	598,458	441,300	135,885	122,454	204,681
(23,468)	(22,092)	(23,448)	(22,800)	(22,270)	(23,371)
\$ 1,496,880	\$ 747,239	\$ 522,532	\$ 178,793	\$ 347,559	\$ 460,657

City of Charlotte, Michigan

	As of June 30			
	1998	1999	2000	2001
General Fund:				
Reserved	\$ 2,344	\$ 2,344	\$ 28,649	\$ 27,277
Unreserved	<u>1,079,353</u>	<u>1,215,415</u>	<u>1,193,068</u>	<u>1,351,184</u>
Total General Fund	1,081,697	1,217,759	1,221,717	1,378,461
All other governmental funds:				
Reserved	5,581	5,721	5,004	-
Unreserved, reported in:				
Special Revenue Funds	796,515	1,019,344	592,792	739,130
Capital Project Funds	<u>-</u>	<u>-</u>	<u>184,350</u>	<u>557,368</u>
Total all other governmental funds	<u>\$ 802,096</u>	<u>\$ 1,025,065</u>	<u>\$ 782,146</u>	<u>\$ 1,296,498</u>

**Fund Balances, Governmental Funds
Last Ten Fiscal Years**

As of June 30					
2002	2003	2004	2005	2006	2007
\$ 27,098	\$ 141,700	\$ 191,642	\$ 150,598	\$ 163,656	\$ 161,392
1,860,717	1,818,495	1,351,022	1,316,667	1,318,245	1,510,437
1,887,815	1,960,195	1,542,664	1,467,265	1,481,901	1,671,829
2,205	6,204	9,894	18,722	20,971	26,184
977,365	941,315	989,534	1,176,647	1,422,192	1,237,256
440,506	-	-	-	-	-
<u>\$ 1,420,076</u>	<u>\$ 947,519</u>	<u>\$ 999,428</u>	<u>\$ 1,195,369</u>	<u>\$ 1,443,163</u>	<u>\$ 1,263,440</u>

City of Charlotte, Michigan

	Year Ended June 30		
	1998	1999	2000
Revenue			
Property taxes	\$ 1,897,731	\$ 1,947,526	\$ 1,888,394
Special assessments	-	-	-
Licenses and permits	58,102	40,342	92,777
Intergovernmental	1,535,489	1,972,494	1,616,892
State and local sources	-	-	-
Federal grants	-	-	-
Charges for services	274,746	386,857	266,113
Fines and forfeitures	51,813	56,216	33,421
Other	181,262	313,923	215,428
Total revenue	3,999,143	4,717,358	4,113,025
Expenditures			
Current:			
General government	127,266	48,662	109,644
Public safety	1,777,820	1,928,725	2,158,711
Public works	979,094	1,450,330	1,840,441
Recreation and culture	258,315	111,776	-
Community and economic development	306,656	874,140	337,006
Capital outlay	-	-	-
Debt service principal	60,765	39,104	39,964
Debt service interest	4,859	9,470	6,620
Total expenditures	3,514,775	4,462,207	4,492,386
Excess of Revenue Over (Under) Expenditures	484,368	255,151	(379,361)
Other Financing Sources (Uses)			
Proceeds from long-term debt	50,000	-	-
Sale of fixed assets	2,011	204,675	55,034
Transfers in	403,700	672,451	408,548
Transfers out	(485,300)	(826,595)	(414,271)
Total other financing sources (uses)	(29,589)	50,531	49,311
Extraordinary Item	-	(70,175)	-
Net Change in Fund Balances	454,779	235,507	(330,050)
Fund Balances - Beginning of year	1,439,574	2,098,406	2,333,913
Fund Balances - End of year	\$ 1,894,353	\$ 2,333,913	\$ 2,003,863

Note: Years 1997 - 2003 presented in pre-GASB 34 implementation format
Fund balance - Beginning of year for 1999 reflects a restatement from prior year

**Changes in Fund Balances, Governmental Funds
Last Ten Fiscal Years**

		Year Ended June 30						
		2001	2002	2003	2004	2005	2006	2007
\$	2,063,429	\$ 2,341,020	\$ 2,473,208	\$ 2,500,705	\$ 2,648,761	\$ 2,742,872	\$ 2,939,421	
	-	-	-	33,043	27,958	22,793	14,256	
	96,282	66,440	70,640	124,241	59,018	55,985	90,065	
	1,555,958	1,589,887	1,642,310	-	-	-	-	
	-	-	-	1,525,538	1,638,075	1,770,652	1,496,886	
	-	-	-	200,333	187,685	-	506,027	
	218,713	253,258	231,706	273,456	207,947	210,051	229,701	
	42,392	29,039	29,270	33,293	29,075	29,207	31,532	
	207,958	205,655	812,942	256,123	229,674	195,088	383,706	
	4,184,732	4,485,299	5,260,076	4,946,732	5,028,193	5,026,648	5,691,594	
	88,372	108,591	792,475	528,737	605,052	595,040	550,204	
	2,387,105	2,378,798	2,378,867	2,307,638	2,405,193	2,496,011	2,511,489	
	1,580,324	2,131,877	1,971,359	1,100,758	1,011,859	1,045,120	1,581,050	
	-	-	-	155,220	168,718	154,971	175,392	
	234,157	226,720	376,863	177,282	113,200	143,715	657,815	
	-	-	-	1,050,552	484,274	212,746	83,404	
	31,312	65,566	95,102	75,000	80,000	80,000	90,000	
	4,410	35,592	68,429	65,235	62,155	58,885	55,406	
	4,325,680	4,947,144	5,683,095	5,460,422	4,930,451	4,786,488	5,704,760	
	(140,948)	(461,845)	(423,019)	(513,690)	97,742	240,160	(13,166)	
	723,975	764,503	-	-	-	-	-	
	126,000	-	-	-	-	-	-	
	499,500	303,607	278,011	316,242	302,814	339,686	430,556	
	(537,431)	(271,139)	(255,169)	(292,794)	(280,014)	(317,416)	(407,185)	
	812,044	796,971	22,842	23,448	22,800	22,270	23,371	
	-	297,806	-	-	-	-	-	
	671,096	632,932	(400,177)	(490,242)	120,542	262,430	10,205	
	2,003,863	2,674,959	3,307,891	3,032,334	2,542,092	2,662,634	2,925,064	
\$	2,674,959	\$ 3,307,891	\$ 2,907,714	\$ 2,542,092	\$ 2,662,634	\$ 2,925,064	\$ 2,935,269	

Revenue Capacity

These schedules contain information to help the reader assess the City's most significant local revenue source, the property tax.

City of Charlotte, Michigan

Taxable Value and Actual Value of Taxable Property Last Ten Fiscal Years

Fiscal Year		Taxable Value by Property Type						Tax Rate (Mills)	Estimated Actual Value	Taxable Value as a Percentage of Actual
		Real Property			Personal Property	Total Value				
Tax Year	Ended June 30	Residential	Commercial	Industrial	Personal Property	Total Value				
1997	1998	\$ 72,630,100	\$ 23,806,500	\$ 8,268,500	\$ 15,827,300	\$ 120,532,400	14.7870	\$ 265,819,800	45.34	
1998	1999	75,387,600	24,756,700	8,745,600	16,880,500	125,770,400	14.5270	271,790,400	46.27	
1999	2000	78,487,100	25,210,800	8,985,400	17,849,100	130,532,400	13.6270	289,232,600	45.13	
2000	2001	82,934,900	28,476,700	9,401,700	16,238,900	137,052,200	13.6354	311,911,800	43.94	
2001	2002	88,124,400	34,928,400	10,704,800	19,604,500	153,362,100	13.6423	347,415,400	44.14	
2002	2003	94,504,600	43,511,800	10,644,000	20,600,100	169,260,500	13.6462	388,903,800	43.52	
2003	2004	100,636,600	43,820,200	10,773,100	19,897,500	175,127,400	13.6481	432,925,600	40.45	
2004	2005	108,569,100	45,344,800	10,363,900	19,095,200	183,373,000	13.4170	464,476,200	39.48	
2005	2006	117,280,300	45,897,900	11,137,800	22,141,200	196,457,200	13.4170	527,849,200	37.22	
2006	2007	126,326,300	48,195,100	11,090,100	21,936,400	207,547,900	13.4173	559,869,452	37.07	

Note: Under Michigan law, the revenue base is referred to as "taxable value". This amount represents assessed value (50 percent of true cash value), limited for each property by the lower of 5 percent or inflation.

Taxes levied in a particular "tax year" become revenue of the subsequent fiscal year.

Source: Treasurer, City of Charlotte

City of Charlotte, Michigan

Direct and Overlapping Property Tax Rates Last Ten Fiscal Years

Millage Rates - Direct City Taxes									
Tax Year	Direct City Taxes		Overlapping Taxes					Total Tax Rate	
	General Operating	County	State Education Tax	Intermediate School District	Charlotte Public Schools - Homestead	Charlotte Public Schools - Nonhomestead	District Library	Homestead	Non-homestead
1997	14.7870	7.4921	6.0000	6.1977	2.5000	20.5000	-	36.9768	54.9768
1998	14.5270	7.4921	6.0000	6.1913	2.5000	20.5000	0.9000	37.6104	55.6104
1999	13.6270	7.4921	6.0000	4.0638	7.0000	25.0000	0.8982	39.0811	57.0811
2000	13.6354	7.4921	6.0000	4.0311	7.0000	25.0000	0.8916	39.0502	57.0502
2001	13.6423	7.3935	6.0000	3.9858	7.0000	25.0000	0.8847	38.9063	56.9063
2002	13.6462	7.4167	6.0000	3.9704	7.5504	25.5504	0.8808	39.4645	57.4645
2003	13.6481	7.3876	6.0000	3.9457	7.5900	25.5900	0.8789	39.4503	57.4503
2004	13.4170	7.8012	5.0000	3.7350	7.5900	25.5900	0.8758	38.4190	56.4190
2005	13.4170	7.7634	6.0000	3.8896	7.5900	25.5900	0.8758	39.5358	57.5358
2006	13.4173	7.7507	6.0000	3.8778	7.5900	25.5900	0.8567	39.4925	57.4925

Note: Michigan law restricts the maximum millage that may be levied by the City without a vote of our residents at 14.2928 mills for general operations

City of Charlotte, Michigan

Principal Property Taxpayers June 30, 2007

Taxpayer	2006 Taxable Value	Percentage of Total	1997 Taxable Value	Percentage of Total	1997 Rank
1 Owens-Illinois Glass Container	\$ 7,261,800	3.50	\$ 5,846,600	4.85	1
2 Meijer, Inc	5,670,700	2.73	-	-	-
3 T&WA of Lansing LLC	4,839,400	2.33	-	-	-
4 Wollin Products	4,871,200	2.35	-	-	-
5 Spartan Motors	3,512,700	1.69	5,258,500	4.36	2
6 Consumers Energy	3,418,900	1.65	3,414,400	2.83	3
7 Wal-Mart	3,296,900	1.59	-	-	-
8 Linn Products	3,221,600	1.55	-	-	-
9 Legacy Parke Partners LLC	2,104,700	1.01	-	-	-
10 I I I I Group LLC	1,477,900	0.71	-	-	-
General Aluminum Products, Inc.	-	-	2,728,700	2.26	4
Felpausch	-	-	1,154,100	0.96	5
Butternut Apartments	-	-	868,100	0.72	6
Charlotte Plaza Association	-	-	820,900	0.68	7
Spartan Stores	-	-	-	-	-
Super 8 Motel	-	-	-	-	-
Wolohan Lumber	-	-	733,900	0.61	8
H & L Charlotte	-	-	650,600	0.54	9

Note: In 1997, Owens-Illinois Glass Container was listed as two separate entities. For comparison they have been combined above.

Source: Treasurer, City of Charlotte

City of Charlotte, Michigan

Property Tax Levies and Collections Last Ten Fiscal Years

Tax Year	Fiscal Year Ended June 30	Total Levy	Current Collections	Percent Collected	Delinquent Collections	Total Tax Collections	Percent of Levy Collected
1997	1998	\$ 1,773,835	\$ 1,712,409	96.54	\$ 60,073	\$ 1,772,482	99.92
1998	1999	1,815,328	1,745,565	96.16	67,222	1,812,787	99.86
1999	2000	1,857,584	1,776,857	95.65	73,748	1,850,605	99.62
2000	2001	2,009,531	1,881,107	93.61	86,106	1,967,213	97.89
2001	2002	2,203,973	2,093,338	94.98	56,723	2,150,061	97.55
2002	2003	2,288,957	2,178,869	95.19	96,088	2,274,957	99.39
2003	2004	2,537,236	2,438,280	96.10	87,553	2,525,833	99.55
2004	2005	2,608,282	2,491,117	95.51	110,407	2,601,524	99.74
2005	2006	2,764,603	2,653,564	95.98	88,988	2,742,552	99.20
2006	2007	2,914,966	2,773,843	95.16	137,439	2,911,282	99.87

Debt Capacity

These schedules contain information to help the reader assess the affordability of the City's current levels of outstanding debt and the City's ability to issue additional debt in the future.

City of Charlotte, Michigan

	1998	1999	2000	2001
Governmental Activities				
General obligation bonds	\$ 90,000	\$ 70,000	\$ -	\$ 735,000
Loans payable	-	-	-	-
Land contract	77,065	70,853	53,045	34,138
Economic development agreement	-	-	-	-
Total	167,065	140,853	53,045	769,138
Business-type Activities				
General obligation bonds	2,130,000	2,015,000	1,895,000	1,765,000
Loans payable	-	211,879	128,477	74,440
Revenue bonds	-	-	8,032,675	7,862,461
Total	2,130,000	2,226,879	10,056,152	9,701,901
Total debt of the government	\$ 2,297,065	\$ 2,367,732	\$ 10,109,197	\$ 10,471,039
Total residential personal income	\$ 2,452,066	\$ 2,538,707	\$ 2,668,226	\$ 2,803,549
Ratio of total debt to personal income	106.75%	107.22%	26.39%	26.77%
Total population*	8,083	8,083	8,389	8,389
Total debt per capita	\$ 284	\$ 293	\$ 1,205	\$ 1,248

Note: 1998-1999 population based on 1990 census figures; 2000-2007 population based on 2000 census figures

N/A = Information not available

**Ratios of Outstanding Debt
Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007
\$	1,475,000	\$ 1,405,000	\$ 1,330,000	\$ 1,250,000	\$ 1,170,000	\$ 1,080,000
	11,037	-	-	-	-	-
	14,065	-	-	-	-	-
	-	114,491	242,983	229,102	183,204	165,330
	1,500,102	1,519,491	1,572,983	1,479,102	1,353,204	1,245,330
	1,630,000	1,485,000	1,330,000	1,165,000	990,000	805,000
	10,000	-	-	-	-	-
	7,682,354	7,492,247	7,292,140	7,077,033	6,799,449	6,548,164
	9,322,354	8,977,247	8,622,140	8,242,033	7,789,449	7,353,164
\$	10,822,456	10,496,738	10,195,123	9,721,135	9,142,653	8,598,494
\$	2,860,581	\$ 2,927,320	\$ 3,064,536	\$ 3,083,449	\$ 3,136,018	N/A
	26.43%	27.89%	30.06%	31.72%	34.30%	N/A
	8,389	8,389	8,389	8,389	8,389	8,390
\$	1,290	\$ 1,251	\$ 1,215	\$ 1,159	\$ 1,090	\$ 1,025

City of Charlotte, Michigan

Fiscal Year	Tax-limited General Obligation Bonds (LTGO)	Tax- supported Bonds (UTGO)	Less Pledged Debt Service Funds	Other General Obligation Debt	Net General Bonded Debt
1998	\$ 90,000	\$ -	\$ -	\$ 77,065	\$ 167,065
1999	70,000	-	-	70,853	140,853
2000	-	-	-	53,045	53,045
2001	735,000	-	-	34,138	769,138
2002	1,475,000	-	-	25,102	1,500,102
2003	1,405,000	-	-	114,491	1,519,491
2004	1,330,000	-	-	242,983	1,572,983
2005	1,250,000	-	-	229,102	1,479,102
2006	1,170,000	-	-	183,204	1,353,204
2007	1,080,000	-	-	165,330	1,245,330

(1) Estimates not available; amount from 1990 census used

(2) Estimates not available; amount from 2000 census used

**Ratios of General Bonded Debt Outstanding
Last Ten Fiscal Years**

	Taxable Value	Debt as a Percentage of Taxable Value	Population	Debt per Capita
\$	120,532,400	0.14	8,083 (1)	21
	125,770,400	0.11	8,083 (1)	17
	130,532,400	0.04	8,389 (2)	6
	137,052,200	0.56	8,389 (2)	92
	153,362,100	0.98	8,389 (2)	179
	169,260,500	0.90	8,389 (2)	181
	175,127,400	0.90	8,389 (2)	188
	183,373,000	0.81	8,389 (2)	176
	196,457,200	0.69	8,389 (2)	161
	207,547,900	0.60	8,389 (2)	148

City of Charlotte, Michigan

Direct and Overlapping Governmental Activities Debt June 30, 2007

Governmental Unit	Debt Outstanding	Estimated Percent Applicable	Estimated Share of Overlapping Debt
Eaton County	\$ 26,189,563	6.43	\$ 1,683,989
Eaton Intermediate School District	1,745,000	8.33	145,359
Charlotte Public Schools	<u>59,876,272</u>	41.77	<u>25,010,319</u>
Total overlapping debt	87,810,835		26,839,666
Direct City debt	<u>1,245,330</u>	100.00	<u>1,245,330</u>
Total direct and overlapping debt	<u>\$ 89,056,165</u>		<u>\$ 28,084,996</u>

City of Charlotte, Michigan

Pledged Revenue Coverage Last Ten Fiscal Years

Fiscal Year	Water and Sewer Revenue Bonds						Coverage (Percent)
	Gross Revenues	Applicable Expenses	Net Revenues	Debt Service			
				Principal	Interest	Total	
1998	\$ 1,471,560	\$ 1,215,395	\$ 256,165	\$ 110,000	\$ 118,026	\$ 228,026	112.34
1999	1,718,373	1,367,442	350,931	115,000	111,389	226,389	155.01
2000	2,726,734	1,619,150	1,107,584	120,000	445,172	565,172	195.97
2001	3,216,643	1,447,704	1,768,939	310,000	523,723	833,723	212.17
2002	3,125,906	1,599,276	1,526,630	297,284	187,788	485,072	314.72
2003	2,860,608	1,641,493	1,219,115	335,107	502,283	837,390	145.59
2004	2,906,173	1,739,638	1,166,535	355,107	482,854	837,961	139.21
2005	2,869,560	1,734,836	1,134,724	380,107	462,249	842,356	134.71
2006	2,965,448	1,764,385	1,201,063	452,584	346,422	799,006	150.32
2007	3,167,495	1,905,570	1,261,925	436,285	379,567	815,852	154.68

City of Charlotte, Michigan

	1998	1999	2000	2001
Calculation of Debt Limit				
State equalized valuation	\$ 120,506,400	\$ 144,616,300	\$ 155,955,900	\$ 173,707,200
10% of taxable value	12,050,640	14,461,630	15,595,590	17,370,720
Calculation of Debt Subject to Limit				
Total debt	2,214,419	2,079,279	10,109,197	10,471,039
Less debt not subject to limit - Revenue bonds	-	-	8,032,675	9,627,461
Net debt subject to limit	2,214,419	2,079,279	2,076,522	843,578
Legal Debt Margin	9,836,221	12,382,351	13,519,068	16,527,142
Net Debt Subject to Limit as Percent of Debt Limit	22.51%	16.79%	15.36%	5.10%

**Legal Debt Margin
Last Ten Fiscal Years**

	2002	2003	2004	2005	2006	2007
\$	173,707,700	\$ 194,451,900	\$ 216,526,900	\$ 232,238,100	\$ 263,924,600	\$ 279,934,726
	17,370,770	19,445,190	21,652,690	23,223,810	26,392,460	27,993,473
	10,812,726	10,382,247	10,195,123	9,721,135	9,142,653	8,598,494
	<u>9,312,354</u>	<u>8,977,247</u>	<u>8,622,140</u>	<u>8,242,033</u>	<u>7,789,449</u>	<u>7,353,164</u>
	1,500,372	1,405,000	1,572,983	1,479,102	1,353,204	1,245,330
	15,870,398	18,040,190	20,079,707	21,744,708	25,039,256	26,748,143
	9.45%	7.79%	7.83%	6.80%	5.40%	4.66%

Demographics and Economic Information

These schedules offer demographic and economic indicators to help the reader understand the environment within which the City's financial activities take place.

City of Charlotte, Michigan

Demographic and Economic Statistics Last Ten Fiscal Years

Fiscal Year	Population		Personal Income (in thousands)*	Per Capita Personal Income	Unemployment Rate**
1998	8,083	(1)	\$ 2,538,707	\$ 314	4.20
1999	8,083	(1)	2,668,226	330	3.30
2000	8,389	(2)	2,803,849	334	3.20
2001	8,389	(2)	2,860,581	341	3.20
2002	8,389	(2)	2,927,320	349	3.20
2003	8,389	(2)	3,042,007	363	4.00
2004	8,389	(2)	3,090,781	368	4.70
2005	8,389	(2)	3,136,018	374	6.20
2006	8,389	(2)	N/A	-	5.20
2007	8,390	(2)	N/A	-	6.20

(1) Estimates not available; amount from 1990 Census

(2) Estimates not available; amount from 2000 Census

N/A = Information not available

* Number represents all of Eaton County

** 2007 rate is as of July 2007

Source: U.S. Department of Commerce - Bureau of Economic Analysis website

City of Charlotte, Michigan

Principal Employers June 30, 2007

Employer	2006		2007	
	Number of Employees	Percentage of Total	Number of Employees	Percentage of Total
1 Spartan Motors	740	21.80	1,062	27.64
2 Charlotte Public Schools	510	15.02	502	13.07
3 Hayes Green Beach Memorial Hospital	477	14.05	490	12.75
4 County of Eaton	400	11.78	400	10.41
5 Wal-Mart Stores, Inc.	291	8.57	286	7.44
6 Meijer, Inc.	280	8.25	275	7.16
7 Thomas Redmer Group	-	-	240	6.25
8 Eaton Intermediate School District	210	6.19	210	5.47
9 Peckham Vocational Industries	190	5.60	200	5.21
Owens-Brockway Glass Container, Inc.	188	5.54	177	4.61
Linn Products, Inc.	109	3.21	-	-

Information for years prior to fiscal year 2005-2006 is not available.

Source: Treasurer, City of Charlotte

Operating Information

These schedules contain service and infrastructure data to help the reader understand how the information in the City's financial report relates to the services the City provides and the activities it performs.

City of Charlotte, Michigan

Function/Program	1998	1999	2000	2001
General government:				
City manager	1	2	2	2
Clerk	2	2	2	2
Assessor	2	1	1	1
Finance and treasury	4	4	4	4
Public safety:				
Police	17	19	20	20
Fire - Full-time	5	6	7	6
Fire - Volunteer	25	27	25	25
Building inspection	-	-	-	-
Public works:				
DPW	14	14	16	14
Water and sewer	6	6	6	6
Community and economic development	1	1	1	1
Total	<u>77</u>	<u>82</u>	<u>84</u>	<u>81</u>

**Full-time Equivalent Government Employees
Last Ten Fiscal Years**

2002	2003	2004	2005	2006	2007
2	2	2	2	2	2
2	2	2	2	2	2
1	1	1	1	1	1
4	4	4	4	4	3
20	21	21	21	21	19
6	6	6	6	6	6
24	25	24	26	27	29
1	1	1	1	1	1
13	13	13	13	13	13
8	8	8	8	8	7
1	1	1	1	1	1
<u>82</u>	<u>84</u>	<u>83</u>	<u>85</u>	<u>86</u>	<u>84</u>

City of Charlotte, Michigan

Function/Program	1998	1999	2000	2001
Election data:				
Registered voters	5,728	5,884	5,665	5,840
Voters (at the polls or absentee)	3,164	2,486	1,414	3,281
Percent voting	55.24%	42.25%	24.96%	56.18%
Police:				
Physical arrests	701	717	719	800
Traffic violations	1,280	1,581	1,473	1,936
Investigations	5,358	1,063	1,236	3,058
Fire:				
Fire runs	350	389	446	403
Emergency medical runs	101	122	134	117
Inspections	380	231	163	110
Public works - Miles of street resurfaced	0.46	1.24	0.92	1.81
Parks and recreation - Recreation program attendance	N/A	N/A	N/A	N/A
Water:				
Number of customers billed	3,300	3,300	3,350	3,353
Total daily consumption	1,090,000	1,090,000	1,090,000	1,033,500
Average consumption per user	331	331	360	397
Sewer - Average daily sewage treatment	1,000,000	1,100,000	1,100,000	971,400

N/A = Information not available

**Operating Indicators
Last Ten Fiscal Years**

2002	2003	2004	2005	2006	2007
5,959	5,857	5,579	5,908	6,033	6,108
1,345	2,528	1,206	3,937	1,393	837
22.57%	43.16%	21.62%	66.64%	23.09%	13.70%
692	745	775	758	668	642
2,020	1,414	1,253	1,133	928	1,227
1,114	2,390	3,204	2,730	2,626	2,642
397	373	483	541	550	507
129	132	176	204	219	192
212	215	153	162	96	105
0.43	1.13	-	-	0.73	-
N/A	N/A	N/A	N/A	60	56
3,804	3,593	3,614	3,614	3,703	3,716
1,064,000	967,806	967,806	967,806	976,435	1,069,000
280	270	268	268	264	288
975,000	964,450	964,450	978,422	963,250	944,000

City of Charlotte, Michigan

Function/Program	1998	1999	2000	2001
Police:				
Stations	1	1	1	1
Patrol units	4	4	5	5
Fire:				
Stations	1	1	1	1
Fire response vehicles	7	7	7	7
Emergency response vehicles	-	-	-	-
Public works:				
Streets (miles):				
Major streets	11.33	11.33	11.33	11.33
Local streets	23.41	23.55	24.38	24.38
Sidewalks				
Streetlights	48	48	353	353
Traffic signals	5	5	5	6
Parks and recreation:				
Acreage	180	180	180	199
Developed parks/playgrounds	7	7	7	7
Developed fields (soccer, baseball, etc.)				
Libraries - Branches	1	1	1	1
Water:				
Mains (miles)	46	46	47	51
Fire hydrants	353	353	360	397
Storage capacity	2,330,900	233,090	233,090	233,090
Sewer:				
Miles of sanitary sewers	38	38	39	40
Miles of storm sewers	30	30	30	30
Treatment capacity	1,200,000	1,200,000	1,200,000	1,200,000

**Capital Asset Statistics
Last Ten Fiscal Years**

2002	2003	2004	2005	2006	2007
1 7	1 7	1 7	1 8	1 10	1 10
1 7 -	1 7 1	1 7 1	1 8 1	1 8 1	1 8 1
11.33 24.38	11.45 26.05	11.45 26.05	11.45 26.26	11.41 26.26	11.41 26.26
353 6	353 6	353 7	353 7	353 7	353 7
199 7	199 7	199 7	199 7	199 8	199 8
1	1	1	1	1	1
51 400 460,800	52 413 460,800	52 429 1,150,000	52 431 1,150,000	52 433 1,150,000	52 433 1,150,000
40 30 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000	41 31 1,800,000

City of Charlotte, Michigan

**Federal Awards
Supplemental Information
June 30, 2007**

City of Charlotte, Michigan

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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council
City of Charlotte, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, the major fund, and the aggregate remaining fund information of City of Charlotte, Michigan as of and for the year ended June 30, 2007, which collectively comprise City of Charlotte, Michigan's basic financial statements, and have issued our report thereon dated November 6, 2007. Those basic financial statements are the responsibility of the management of City of Charlotte, Michigan. Our responsibility was to express opinions on those basic 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 basic financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the basic 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.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Charlotte, Michigan's basic financial statements. The accompanying schedule of expenditures of federal awards and reconciliation of basic financial statements federal revenue with schedule of expenditures of federal awards are presented for the purpose of additional analysis and are not required parts of the basic financial statements. The information in these schedules has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Plante & Moran, PLLC

November 6, 2007

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*

To the Honorable Mayor and
Members of the City Council
City of Charlotte, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Charlotte, Michigan as of and for the year ended June 30, 2007, which collectively comprise City of Charlotte, Michigan's basic financial statements, and have issued our report thereon dated November 6, 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 City of Charlotte, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of City of Charlotte, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of City of Charlotte, Michigan'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 prevented or detected by the entity's internal control.

To the Honorable Mayor and
Members of the City Council
City of Charlotte, Michigan

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 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 City of Charlotte, 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 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, the City Council, 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.

Plante & Moran, PLLC

November 6, 2007

Report on Compliance with Requirements Applicable to Each
Major Program and on Internal Control Over Compliance in
Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council
City of Charlotte, Michigan

Compliance

We have audited the compliance of City of Charlotte, Michigan with the types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2007. The major federal program of City of Charlotte, Michigan is identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts, and grants applicable to its major federal program is the responsibility of City of Charlotte, Michigan's management. Our responsibility is to express an opinion on City of Charlotte, Michigan's compliance based on our audit.

We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Charlotte, Michigan's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Charlotte, Michigan's compliance with those requirements.

In our opinion, City of Charlotte, Michigan complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2007.

To the Honorable Mayor and
Members of the City Council
City of Charlotte, Michigan

Internal Control Over Compliance

The management of City of Charlotte, Michigan is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Charlotte, Michigan's internal control over compliance with the requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the entity's internal control over compliance.

A control deficiency in an entity's internal control over compliance 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 noncompliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to administer a major federal program such that there is more than a remote likelihood that noncompliance with a type of compliance requirement of a major federal program 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 material noncompliance with a type of compliance requirement of a major federal program will not be prevented or detected by the entity's internal control.

Our consideration of internal control over compliance 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 compliance that we consider to be material weaknesses, as defined above.

This report is intended solely for the information and use of management, the City Council, 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.

Plante & Moran, PLLC

December 18, 2007

City of Charlotte, Michigan

Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Federal Agency/Pass-through Agency/Program Title	CFDA Number	Pass-through Entity Project/Grant Number	Award Amount	Federal Expenditures
U.S. Department of Housing and Urban Development - Passed through the State of Michigan - Community Development Block Grants - States' Program - MSC 205028- EDJT	14.228		\$ 450,000	\$ 450,000
U.S. Environmental Protection Agency - Brownfields' Assessment and Cleanup Cooperative Agreements:	66.818			
City of Charlotte USEPA Brownfield Assessment Grant - Hazardous Substances		G53PONBH	200,000	48,580
City of Charlotte USEPA Brownfield Assessment Grant - Petroleum Substances		G53QORBH	200,000	14,870
Total U.S. Environmental Protection Agency			<u>400,000</u>	<u>63,450</u>
Total federal awards			<u>\$ 850,000</u>	<u>\$ 513,450</u>

City of Charlotte, Michigan

Reconciliation of Basic Financial Statements Federal Revenue with Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Revenue from federal sources - As reported on financial statements (includes all funds)	\$ 506,027
Revenue not available to finance expenditures of the current period	63,450
Revenue available to finance expenditures of the prior period	<u>(56,027)</u>
Federal expenditures per the schedule of expenditures of federal awards	<u><u>\$ 513,450</u></u>

City of Charlotte, Michigan

Notes to Schedule of Expenditures of Federal Awards Year Ended June 30, 2007

Note 1 - Significant Accounting Policies

The accompanying schedule of expenditures of federal awards includes the federal grant activity of City of Charlotte, Michigan and is presented on the same basis of accounting as the basic financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

Note 2 - Subrecipient Awards

Of the federal expenditures presented in the schedule of expenditures of federal awards, federal awards were provided to subrecipients as follows:

Federal Program Title	CFDA Number	Amount Provided to Subrecipients
Community Development Block Grants	14.228	\$ 450,000

City of Charlotte, Michigan

Schedule of Findings and Questioned Costs Year Ended June 30, 2007

Section I - Summary of Auditor's Results

Financial Statements

Type of auditor's report issued: Unqualified

Internal control over financial reporting:

- Material weakness(es) identified? Yes No
- Significant deficiency(ies) identified that are not considered to be material weaknesses? Yes None reported

Noncompliance material to financial statements noted? Yes No

Federal Awards

Internal control over major program:

- Material weaknesses identified? Yes No
- Significant deficiencies identified that are not considered to be material weaknesses? Yes None reported

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

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

Identification of major program:

CFDA Number	Name of Federal Program or Cluster
14.228	Community Development Block Grants

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

Auditee qualified as low-risk auditee? Yes No

City of Charlotte, Michigan

Schedule of Findings and Questioned Costs (Continued) Year Ended June 30, 2007

Section II - Financial Statement Audit Findings

Reference Number	Findings
	None

Section III - Federal Program Audit Findings

Reference Number	Findings
	None

City of Charlotte, Michigan

Report to the City Council

June 30, 2007

To the Honorable Mayor and
 Members of the City Council
 City of Charlotte, Michigan

We recently completed our audit of the financial statements of the City of Charlotte, Michigan for the year ended June 30, 2007. During the performance of our audit, we noted items related to the internal control systems and operations as a whole that we would like to bring to your attention. All items are presented for your consideration on attachments as outlined below:

Title	Page
Recommendations	
Internal Controls	2
Informational and Legislative Items	
Retiree Healthcare Benefits	3
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911 Surcharge Sunset Extended Temporarily	8
Other Legislative Items	8
Property Tax Legislation	9
Bonding to Fund Liability for Other Postemployment Benefits	10
Municipal Finance Act	10
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We appreciate the opportunity to be of service to the City of Charlotte. The cooperation extended to us by your staff throughout the audit was greatly appreciated. We look forward to continuing our relationship with the City. Should you wish to discuss any of the items included in this letter, we would be happy to do so.

Plante & Moran, PLLC

November 6, 2007

Recommendations

City of Charlotte, Michigan

Recommendations

June 30, 2007

Internal Controls

The most important element necessary to reduce the risk of fraud is to have a sound organizational structure which includes sound accounting and internal control policies and procedures. The item below was identified as an area for potential improvement in the City's internal control procedures:

- We would like to congratulate the City for the improvement made in its internal controls over the past year. As previously reported, the City's bank reconciliations and wire transfers were performed by an individual who also had access to the general ledger, with no review performed of these activities. In the current year, the City implemented a new procedure whereby the city clerk reviews the bank reconciliations on a monthly basis, enhancing the City's internal controls. Although improvement has been made, there is always room for continued advancement of these important procedures. For example, currently journal entries are performed by two individuals within the finance department and are not reviewed. We suggest that the City include monthly approval of journal entries as a part of its regular process to provide an additional control over the City's assets.
- After taking various development and maintenance issues into consideration, water loss for the current year is approximately 11 percent. Although just slightly outside industry standards, this, again, is higher than calculated in the previous year. The Public Works Department has worked diligently over the past year to identify areas where the water loss is occurring. To further enhance their efforts, we encourage higher communication between the Public Works Department and the Fire Department to more completely identify legitimate water losses. In addition, we suggest that the City consider limited testing of its water system at potential leak sites based upon available data.
- In calculating the property tax revenue to be received by the DDA and the LDFA, an incorrect property tax value report was utilized, reducing the revenue received for these two component units. Although the amounts were not significant, we encourage the city assessing department to verify the roll of these two component units with the Eaton County equalization department to ensure that tax collections are appropriately distributed.

Informational and Legislative Items

City of Charlotte, Michigan

Informational and Legislative Items

June 30, 2007

Retiree Healthcare Benefits

As noted in the City's Comprehensive Annual Financial Report and in previous letters to the City Council, the Governmental Accounting Standards Board has released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The intent of the new rules is to recognize the cost of providing retiree healthcare coverage over the working life of the employee, rather than at the time the healthcare premiums are paid. These new rules will apply to the government-wide financial statements rather than the individual fund level, and will become effective to the City for the fiscal year ending June 30, 2010.

New Auditing Pronouncements

Statements on Auditing Standards 104 to 111 - The Risk Assessment Standards - The AICPA issued Statements on Auditing Standards (SAS 104 - SAS 111) which will substantially affect the auditing process. The effective date for the City's audits will be for the audit of the financial statements for the year ending June 30, 2008. These standards essentially redefine the audit process from start to finish and the ramifications for the audit process are substantial.

The new standards primarily require:

- The auditor to obtain a deeper understanding of (1) the City and its internal control, for purposes of identifying the risks of material misstatement in the financial statements; and (2) what the City is doing to mitigate those risks
- A more rigorous assessment of the risks of material misstatement based on that understanding, with additional emphasis on significant risks that call for special audit consideration
- A clearer linkage between the assessed risks and the audit procedures performed, including tests of controls and substantive tests, in response to those risks

We have invested substantial resources into the redesign of our audit process to conform to these requirements. Our ultimate goal, as in the past, is to provide a quality audit, in full conformance with the requirements, which is tailored to the unique environment for the City. As a result, our 2008 audit process will have many new features and elements built in. We will work with the City to understand the elements, involve the City in the information gathering process, and perform audit tests focused on the risks embedded in the City's financial statements. To provide the City with as much lead time as possible in the data gathering process, we will review the information needs and soon provide the City with the tools needed.

City of Charlotte, Michigan

Informational and Legislative Items

New Auditing Pronouncements (Continued)

Statement on Auditing Standards 114 - Communication with Those Charged with Governance - The AICPA issued Statement on Auditing Standards (SAS) 114, which will increase the amount of information provided to the board and others charged with governance about the audit process and results. This standard, effective for the June 30, 2008 audit, will provide information describing what an audit is, emphasizing management's role in the financial statement reporting process, identifying issues encountered during the audit, and clarifying what must be communicated in writing. This required communication will be in addition to the financial statements and management letter already received by the City.

These changes in the auditing standards continue to increase the level of audit effort required by the auditor and the amount of information provided to the City. We will work closely with the City to simplify and clarify changes as they continue to become effective.

Revenue Sharing

The future of the State's revenue-sharing program continues to be directly tied to the condition of the State's budget. Reductions to statutory revenue sharing started in 2001 as shortfalls began occurring in the State's budget. The State's budget shortfalls continue to be significant. The State was approximately \$1.8 billion short of the revenue needed to cover basic services for the State's upcoming fiscal year 2007/2008 budget. The legislature and the governor acted on October 1 to increase the income tax rate (from 3.9 percent to 4.35 percent, raising more than \$750 million) and to enact a new 6 percent tax on certain services (raising approximately \$700 million per year). As part of the continuation budget that was also passed on October 1, there are still approximately \$400 million of "to-be-determined" cuts that remain to be agreed upon and announced for the fiscal year 2007/2008 budget. It is not completely clear whether the State's fiscal year 2006/2007 budget has been completely balanced as well. The outcome of other matters will also impact revenue sharing and those matters include:

- ***Future of County Participation in Statutory Revenue Sharing*** - In 2004, the State terminated payment of statutory revenue sharing to counties (which was approximately \$182 million) but allowed counties to move their operating tax levy to July from December. Counties are required to deposit the additional monies from the earlier levy into a "reserve fund" which is to be used by the counties to replace lost statutory revenue sharing in future years. The question that remains is when the reserve funds established by counties are depleted, will counties come back into the "revenue-sharing formula" and to what extent? Will the size of the statutory pot grow to accommodate counties or will there be a shift of the same monies from cities, villages, and townships to the counties?
- ***Statutory Revenue-sharing Formula Expires in 2007*** - Legislative action is required on this Act for appropriations to continue into 2008 and beyond.

City of Charlotte, Michigan

Informational and Legislative Items

Revenue Sharing (Continued)

- ***Changes to Michigan's Tax Structure*** - The Michigan single business tax has been eliminated effective December 31, 2007, which will result in the loss of \$1.9 billion from the State's budget in 2008. In June 2007, a replacement for the single business tax - called the new Michigan business tax - was approved by the legislature. More details on this new tax structure are included below. In the overview, the plan creates a new tax structure for Michigan businesses, provides further personal property tax relief to business taxpayers, and is forecasted by the State to generate about the same revenue (\$1.9 billion) as the single business tax. Technical corrections on this recently passed law are still pending and the law is lengthy and complex. The true financial impact on the State's budget is hard to predict. Further changes to Michigan's tax structure were made on October 1 as described above to partially close the structural budget deficit that exists.

As introduced, the governor's budget for fiscal year 2007/2008 includes a revenue-sharing increase of \$27 million to be distributed using the three-part formula currently contained in the revenue-sharing act (taxable value per capita, population/unit type, and yield equalization) with an additional \$14.5 million for public safety funding. While specific details have yet not been announced, communities would only be eligible for the increase if they can demonstrate service sharing with other local governments. Many observers have indicated that it is likely that revenue sharing for fiscal year 2007/2008 will more than likely be tied to fiscal year 2006/2007 funding levels.

It is unclear what the outcome will be regarding the short-term and long-term funding of statutory revenue sharing. Decisions still remain on the ultimate funding level for revenue sharing for the State's fiscal years 2006/2007 and 2007/2008. Local governments may need to react with budget amendments when these final decisions are made by the State.

If the State were to eliminate the statutory portion of revenue sharing (as the constitutional portion cannot be modified without a change to the State's constitution), the City has \$285,236 at risk in its General Fund budget based on 2007 funding levels. In light of the current environment, we strongly encourage local governments to be conservative when budgeting or projecting the revenue-sharing line item.

Personal Property Tax

Over the last seven years, the State's personal property tax laws and regulations have changed substantially. In 2000, the State Tax Commission updated the general business depreciation tables that are used to calculate personal property taxes, resulting in an approximate drop in property tax revenue of 10 percent. In addition, the State Tax Commission also approved new personal property tax tables for utilities which made drastic changes to transmission and distribution property of utilities (resulting in approximately 30 percent revenue loss to local units of government). Also, the Michigan Supreme Court in *WPW Acquisition Co v. City of Troy* ruled that the Proposal A cap prevents assessors from increasing the taxable value of commercial rental property above the rate of inflation using the occupancy methodology even when reductions in taxable value were previously granted due to a decrease in occupancy.

City of Charlotte, Michigan

Informational and Legislative Items

Personal Property Tax (Continued)

The new Michigan business tax also provides more personal property tax relief to business taxpayers (see details below). Even with this most recent relief provided in June 2007 through the MBT, further reductions to personal property tax remain part of the State's tax structure discussions. Personal property taxes are a significant revenue source to many local governments. For the City, personal property tax represents 11 percent of its tax base. If the State's new business tax structure provides personal property tax relief, the question is will local governments be held harmless by the State and to what extent? The governor's tax plan as introduced proposes to change the property tax system to mitigate the impact of the WPW case. A similar attempt to make this correction occurred in 2005 and 2006 with no success.

New Michigan Business Tax

As previously indicated, the new Michigan Business Tax (MBT) was approved by the legislature in June 2007 and replaces the single business tax (SBT) which expires December 31, 2007. According to the State, the new MBT is intended to generate about the same \$1.9 billion generated by the expiring SBT.

While the MBT intended to simplify the old SBT, the MBT is a very lengthy and complicated new law. The new MBT imposes two taxes - a modified gross receipts tax and a business income tax. The modified gross receipts tax is imposed at .8 percent on a tax base composed of gross receipts less certain purchases. The business income tax will be imposed at a rate of less than 5 percent on business income. The MBT provides for new investment, compensation, and research and development credits to businesses. The MBT also allows certain qualified small businesses to opt out of the MBT and pay a straight 1.8 percent tax on adjusted business income.

More personal property tax relief is also part of the new MBT. Business personal property classified as "industrial" or "commercial" will be exempt from certain personal property taxes - specifically from the State Education Tax (SET) and local school operating mills. "Industrial" personal property will receive exemptions from the six SET mills and the 18 schools operating mills (for a total 24 mill exemption). "Commercial" personal property will be exempt from 12 of the 18 school operating mills.

These newly enacted personal property tax exemptions will mean that local governments will collect less school taxes on these properties. For local governments that have enacted an administrative fee on tax collections, they will likely see a decrease in the administration fees that have traditionally been collected. Also, for those local governments with tax increment financing authorities that continue to have existing eligible obligations outstanding and are therefore allowed to capture school taxes (to the extent of these eligible obligations), the personal property tax exemptions on school millages will likely decrease the amount of school taxes available to capture.

City of Charlotte, Michigan

Informational and Legislative Items

New Michigan Business Tax (Continued)

Given the favorable tax treatment of industrial versus commercial personal property, it is expected that businesses will be re-reviewing the classification of their personal property. Your assessor will likely receive more frequent inquiries and requests to change the classification of personal property to take the most advantage of the tax break afforded to industrial property and commercial property and the additional relief available for industrial property.

As we understand it now, these are the areas at the local governmental level (i.e., impact on administrative fees, impact on school dollars available for capture for certain tax increment financing authorities, and property classifications) that are the most directly impacted by the new MBT.

We will keep you updated as we continue to explore these and other issues regarding the impact of the MBT on local units of government.

New Cable Franchise Legislation

The governor signed cable franchise legislation (House Bill 6456) into law effective January 1, 2007. The new law (Public Act 480 of 2006) creates the "Uniform Video Services Local Franchise Act," which provides a statewide framework for franchising agreements instead of individual community agreements. This Act requires video service providers to obtain a local franchise, good for 10 years, from the franchising entity (the local unit of government). As part of the local franchise, the provider is required to pay an annual video service provider fee, not to exceed 5 percent of gross revenue, as well as an annual fee for the costs of the PEG access facilities, not to exceed 2 percent of gross revenue. The Act allows providers to terminate the current franchise contracts before their expiration date in order to enter into this new local franchise agreement under the statewide framework.

Local units of government will be impacted in the following ways:

- Under the Act, no additional fees or charges other than those stipulated under the Act may be written into the local franchise agreements.
- To the extent existing cable franchise agreements provided more funding than provided for under the new Act, municipalities will see reduced fees from these new local franchise agreements.
- A credit, based on annual maintenance fees paid for use of public rights of way, to video service providers is allowed under the Act. This credit could eliminate or significantly reduce any revenue the local unit might receive under the bills' franchise fee.
- Audits of the video service providers' calculation of gross revenue are limited to once every two years.

City of Charlotte, Michigan

Informational and Legislative Items

New Cable Franchise Legislation (Continued)

It is expected that local governments will receive their first payment under the new Act beginning in May 2007 or shortly thereafter. We strongly encourage you to review this payment compared to payments previously received and follow up with your provider as required.

Subsequent to the passage of the Act, amendments have been proposed in both the House and the Senate (House Bill 5047 and Senate Bill 636) to clarify language about the ability of local governments to receive PEG fees.

911 Surcharge Sunset Extended Temporarily

Local governments receiving monies under the Emergency Service Enabling Act to support 911 operations faced the potential elimination or change in the funding formula at December 31, 2006. To allow further analysis of this issue, the sunset of the Act was extended one year to December 31, 2007 (Public Act 249 of 2006). The surcharge to fund 911 operations has been the subject of considerable discussions over the last several months with the approaching expiration at December 31, 2007. Action is required by the legislature to continue this charge beyond December 31, 2007 so discussions will continue on this subject into September and perhaps the remainder of the fall legislative session.

Other Legislative Items

In addition to the legislature's main focus on the business tax structure and solving the budget deficit, the following are a summary of a few other matters impacting local government finance receiving attention in Lansing these days:

- **Act 312** - Several articles have been written about recent discussions on potential revisions to Act 312 which governs collective bargaining between local governments and their police and fire bargaining units.
- **Local Government Consolidation** - Two bills to eliminate potential barriers to consolidation efforts have received attention by the legislature (House Bills 4266 and 4246).
- **Drain Code Revisions** - A series of bills dealing with revisions to the Drain Code were voted on by the House in August (House Bills 4641, 4642, 4643, 4644, and 4688).
- **Transportation Tax Increase** - There continues to be ongoing discussion about the need for additional monies to properly fund Michigan's transportation system. More information can be found at http://www.drivemi.org/mtt_members.php.

City of Charlotte, Michigan

Informational and Legislative Items

Property Tax Legislation

A series of House bills were introduced in 2007 dealing with the treatment of the uncapping of value on sale or transfer of property. With the passage of Proposal A in 1994, changes to the taxable value of an individual property are limited to the lesser of the rate of inflation or 5 percent - until the property is sold or transferred. The difference between the capped taxable value amount and state equalized value at the time of transfer is referred to as the “uncapped” value or the “pop-up” value. As several published studies and reports have demonstrated, the treatment of “uncapped” values or the “pop up” amount when a property is transferred or sold as growth on existing property subject to the Headlee rollback calculation has resulted in continued downward pressure on millage rates. This treatment is due to definitional changes made to the General Property Tax Act in 1994.

The three bills in the package are House Bills 4440, 4441, and 4442 and would propose to do the following:

- **House Bill 4440** - This bill establishes an 18-month moratorium on the “pop-up” or “uncapping” of taxable value to state equalized value at the time of sale or transfer of a property. Property sales or transfers occurring in the timeframe of the moratorium would continue to pay property taxes at the previous taxable value amount. The “pop-up” or “uncapping” of taxable value would be delayed until the property was sold or transferred in later years.
- **House Bill 4441** - This bill increases the real estate transfer tax by .10 percent and earmarks the money to be returned to local government for potential loss in revenue occurring from House Bill 4440.
- **House Bill 4442** - This bill would change the General Property Tax Act to exempt the “pop-up” or “uncapped” value from the Headlee rollback calculation. If this legislation were enacted, increases in taxable value resulting from property sales or transfers would be treated as “additions” to taxable value or new growth versus growth on existing property.

House Bills 4440 and 4441 passed the House on March 14 (HB 4440 has been assigned to the Senate Finance Committee). House Bill 4442 has not been voted on yet in the House. The bills are not tie barred.

City of Charlotte, Michigan

Informational and Legislative Items

Bonding to Fund Liability for Other Postemployment Benefits

The day quickly approaches for local governments to measure the liability for non-pension benefits granted to government employees at retirement (most notably retiree health care). Once these benefits are measured, local governments will face the tough choice of advance funding these benefits (which some are doing now), remain on a pay-as-you go plan (which is the path for most local governments), or a combination thereof. To provide local governments with additional funding options, legislation was introduced in 2006 which would allow for bonding as a funding tool. The legislation was passed by the Michigan legislature and vetoed by the governor. It was expected that the legislation was going to be reconsidered in 2007.

Municipal Finance Act

The Municipal Finance Act was amended several years ago. Communities are now required to submit a filing once a year with the Michigan Department of Treasury. The old 10-day “exemption from prior approval” process has been eliminated and is replaced with this qualification process. This filing will serve as a pre-approval for future debt issues. The current filing is due within six months of the City’s year end (June 30, 2007) and is good for one year thereafter. The City should consider the need to file a qualifying statement for each of its component units.

Property Assessment Cap

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is:

2007	3.7%
2006	3.3%
2005	2.3%
2004	2.3%
2003	1.5%
2002	3.2%
2001	3.2%
2000	1.9%
1999	1.6%
1998	2.7%
1997	2.8%
1996	2.8%
1995	2.6%
1994	3.0%

City of Charlotte, Michigan

Informational and Legislative Items

Property Assessment Cap (Continued)

Also, as you probably recall, the Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth on the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A and as a result of changes made to the State's General Property Tax Act, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

For the year ended June 30, 2007, the City's Headlee maximum property tax rate for its operating levy was 14.2928 mills even though City Charter would allow the City to levy 15.0000 mills for operations. Because of changes made to the General Property Tax Act in 1994, this reduction in millage rate is permanent absent a Headlee override vote. Additionally, as demonstrated in several published studies and reports, due to definitional changes made to the General Property Tax Act in 1994, the treatment of uncapped values or the "pop up" amount when a property is transferred or sold (as growth on existing property subject to the Headlee rollback calculation), will continue downward pressure on millage rates particularly given the significant gap that now exists between taxable value and state equalized value.