CITY OF LITCHFIELD, MICHIGAN

FINANCIAL STATEMENTS
AND INDEPENDENT AUDITOR'S REPORT

YEAR ENDED JUNE 30, 2007

Michigan Department of Treasury
496 (02/06)

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	Local Unit Name	County
☐County ☒City ☐Twp ☐Village ☐Other	CITY OF LITCHFIELD	HILLSDALE

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/07	10/15/07	12/10/2007

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	☒	
The letter of Comments and Recommendations	☐	
Other (Describe)	☐	

Certified Public Accountant (Firm Name)	Telephone Number
OSBOURNE, MARCH, CONDON & CO., P.C.	517-439-9331

Street Address	City	State	Zip
184 W. CARLETON ROAD, HILLSDALE, MI 49242	HILLSDALE	MI	49242

Authorizing CPA Signature	Printed Name	License Number
Stephen W. Bisher	STEPHEN W. BISHER	1101026492

CITY OF LITCHFIELD, MICHIGAN

TABLE OF CONTENTS

	PAGE
INDEPENDENT AUDITOR'S REPORT	i – ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii - viii
BASIC FINANCIAL STATEMENTS	
GOVERNMENT-WIDE FINANCIAL STATEMENTS:	
STATEMENT OF NET ASSETS	1
STATEMENT OF ACTIVITIES	2
FUND FINANCIAL STATEMENTS GOVERNMENTAL FUNDS:	
BALANCE SHEET – GOVERNMENTAL FUNDS	3
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	4
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES – GOVERNMENTAL FUNDS	5
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES	6
PROPRIETARY FUNDS:	
STATEMENT OF NET ASSETS	7
RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET WITH THE STATEMENT OF NET ASSETS	8
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS	9
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS TO THE STATEMENT OF ACTIVITIES	10
STATEMENT OF CASH FLOWS	11
FIDUCIARY FUNDS:	
STATEMENT OF ASSETS AND LIABILITIES	12
NOTES TO FINANCIAL STATEMENTS	13 – 27

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE – GENERAL FUND 28

BUDGETARY COMPARISON SCHEDULE – MAJOR SPECIAL REVENUE FUND – MAJOR STREET 29

BUDGETARY COMPARISON SCHEDULE – MAJOR SPECIAL REVENUE FUND – LOCAL STREET 30

BUDGETARY COMPARISON SCHEDULE – MAJOR SPECIAL REVENUE FUND – RECREATION 31

RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS - MICHIGAN MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM 32

OTHER REPORTS

GAO *GOVERNMENT AUDITING STANDARDS* REPORT 33 - 34

Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

INDEPENDENT AUDITOR'S REPORT

To the City Council
City of Litchfield, Michigan
Litchfield, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, 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 management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards,* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit and the report of the other auditors provide a reasonable basis for our opinion.

The City of Litchfield, Michigan, included in its basic financial statements its investment in Litchfield Fire Department, a joint venture between the City and Litchfield Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. The joint venture financial activities, as described in Note 2, are included in the City's basic financial statements as governmental activities and represent 2.1%, 2.4%, and 1.6% of the assets, net assets, and income, respectively, of the City's aggregate governmental activities.

In our opinion, except for the effects of such adjustments to governmental activities financial statements, if any, as might have been determined to be necessary had the Litchfield Fire Department's financial statements been audited, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Litchfield, 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.

In accordance with *Government Auditing Standards*, we have also issued our report dated October 15, 2007 on our consideration of City of Litchfield, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of the audit performed in accordance with *Government Auditing Standards*, and should be read in conjunction with this report in considering the results of our audit.

The Management's Discussion and Analysis and the budgetary comparisons information on pages iii through viii and 30 through 33 are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the method of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
October 15, 2007

The following discussion and analysis of the financial performance for the City of Litchfield (the "City") provides an overview of the City's financial activities for the fiscal year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

Financial Highlights

The following represents the most significant financial highlights for the year ended June 30, 2007:

- For the City as a whole, net assets increased less than 1 percent by $37,664 over the previous fiscal year.
- City wide total expenses increased 8.5 percent by $105,700 and revenues increased 4.7 percent by $62,138.
- Property taxes are the City's single, largest source of revenue. The City's property tax revenue for fiscal year 2006-2007 was $400,066 which represents an increase of $33,268 or 9.1 percent over fiscal year 2005-2006. State shared revenue, the second largest general revenue source was reduced by the State of Michigan by approximately $3,860 this year. This represents a 2.8 percent decrease from the prior year.
- General government represents the City of Litchfield's largest expense increasing 20.7 percent by $64,808 over last year. Public safety, the second largest City wide expense increased 8.3 percent by $23,276.

Using the Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City's operations in more detail than the government-wide financial statements.

The City as a Whole

The following table shows, in a condensed format, the net assets as of the current year in comparison to the prior year:

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Current assets	$ 798,199	$ 667,755	$ 1,474,117	$ 1,508,502
Capital assets	1,273,310	1,296,885	2,232,517	2,221,423
Other noncurrent assets	44,959	30,590		
Total Assets	$ 2,116,468	$ 1,997,730	$ 3,706,634	$ 3,729,925
Current liabilities	$ 96,274	$ 68,295	$ 157,831	$ 129,969
Long-term liabilities	165,152	43,210	675,000	795,000
Total Liabilities	$ 261,426	$ 111,505	$ 832,831	$ 924,969
Net Assets:				
Invested in capital - net of related debt	$ 1,273,310	$ 1,296,885	$ 1,433,542	$ 1,306,423
Restricted	1,446	7,517	99,528	73,428
Unrestricted	580,286	581,823	1,340,733	1,425,105
Total Net Assets	$ 1,855,042	$ 1,886,225	$ 2,873,803	$ 2,804,956
Total Net Assets and Liabilities	$ 2,116,468	$ 1,997,730	$ 3,706,634	$ 3,729,925

The City's combined net assets increased by approximately $37,664 less than 1 percent from a year ago – increasing from $4.6 million to $4.7 million.

Total assets of governmental activities increased 5.9 percent or $118,738; this is a net result of total current assets increasing $130,444, total capital assets decreasing $23,575 and total other non-current assets increasing $11,869. The increase in current assets in the amount of $130,444 is primarily due to the City allocating these current resources to fund future equipment purchases and street projects. The decrease in capital assets is due to depreciation. The increase in total other non-current assets is primarily due to Litchfield Fire Department's revenues exceeding expenditures for FYE 2007, thereby increasing cash assets held in the joint venture with Litchfield Township for fire services.

Total assets for business type activities decreased less than 1 percent by $23,291. This is a net result of total current assets decreasing $34,385 and total non-current assets increasing $11,094. The non-current asset increase is due to the acquisition of new meters and fixed network meter reading system in water and sewer operations. The total current assets decrease of $34,385 is due to the reduction in cash to purchase the new meters and fixed network meter reading system.

The following is the government-wide results of operations for the current fiscal year in comparison to prior year:

	Governmental Activities 2007	Business-type Activities 2007	Governmental Activities 2006	Business-type Activities 2006
Revenue				
Program Revenue:				
Charges for services	$ 51,133	$ 337,247	$ 55,765	$ 318,381
Operating grants and contributions	178,787	152,957	178,262	161,582
Capital grants and contributions	5,528		9,092	
General Revenue:				
Property taxes	400,066		366,798	
State-shared revenues	133,426		137,289	
Interest	47,429	59,853	27,807	59,935
Other	1,358			
Lease revenue	20,650		5,385	
Transfers in	69,500		55,300	
Transfers out		(69,500)		(49,300)
Total Revenue	$ 907,877	$ 480,557	$ 835,698	$ 490,598
Program Expenses				
General government	$ 378,276	$	$ 313,468	$
Public safety	304,884		281,608	
Highways and street	78,667		66,210	
Public works	72,521		66,424	
Parks and recreation	74,357		84,243	
Depreciation (unallocated)	30,355		41,854	
Water		154,111		147,727
Sewer		198,163		197,595
Refuse		59,436		45,930
	$ 939,060	$ 411,710	$ 853,807	$ 391,252
	$ (31,183)	$ 68,847	$ (18,109)	$ 99,346

Total governmental activities expenses increased 10.0 percent or $85,253 primarily due to recognition of long term pension liability.

Total business type activities expenses increased 5.2 percent or $20,458 due primarily to recognition of long term pension liability.

Expenses for component units decreased $352,836 primarily as a result of the Tax Increment Finance Authority's aggressive development in the industrial park and housing project in the previous fiscal year and moderate development in the FYE 07'. The cost to develop the residential housing is anticipated to be off set in part by the sale of lots, therefore the cost was capitalized. Industrial park development expenses are not anticipated to be off set by any sales, consequently the development cost was considered expense.

The decrease in operating grants and contributions in the amount of $8,100 is due to the public charitable contributions made to the red bud tree planting project, and state grants to the wellhead capping and protection in the previous year.

Total general revenues increased 3.2 percent by $59,568 primarily due to increased property tax revenue and participation in a liquid investment pool with higher interest rates than liquid accounts used in the prior year.

Governmental Activities

Governmental activities include police, fire, streets, public works, parks, recreation, and general government (management, treasurer, clerk, assessing, planning & zoning, etc.). Anything not described as a business-type activity is described as governmental activity.

In fiscal year ending 2007, there were expense increases in all governmental activities primarily due to recognition of long term pension liability. These expenses were offset in part by revenue increases in property tax and interest revenue. The increase in property tax base is a result of inflationary increases in existing parcels. There has been no increase in the operating millage rate. The City millage rate continues at 13 mills. Participation in an liquid investment pool with higher interest rates than liquid accounts used in the prior year provided for the increase in interest revenue.

Fund balance was reduced in general governmental activities primarily due to recognition of long term pension liability.

Business-type Activities

The City's business-type activities consist of the Water, Sewer and Solid Waste Funds. The City operates both Water and Sewer facilities. The Solid Waste Fund includes refuse/recycling collection and brush and leaf pickup. Refuse collection and recycling services are provided by an outside commercial entity. Brush and leaf pickup service is provided by the City of Litchfield's public works department.

Charges for services in the Water, Sewer and Solid Waste Collection operations decreased by 5 percent; this is due primarily to the decline in water consumption by the community. This is attributable to the slow housing market creating many vacant houses. Operating grants and contributions increased by 5.3 percent due to grant revenues received for wellhead capping and protection program completion. Expenses increased by 5.2 percent primarily due recognition of long term pension liability.

The City's Funds

The City's major fund reports follow the government-wide financial statements. The fund financial statements provide detailed information about the significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2007 include the General Fund, Major Street Fund, Local Street Fund and Recreation Fund.

General Fund Highlights

The General Fund accounts for all police, fire, public works, planning and zoning, and administrative functions of the City government. The budget is essentially a "maintenance" budget, which means it increases modestly from year to year. The budget is monitored closely and amended periodically. The result is that actual revenues and expenses are usually within 5 percent of budgeted amounts.

The General Fund pays for most of the City's governmental services. The most significant are general governmental activities, which incurred expenses of approximately $325,551 in fiscal year end 2007. Expenses for general government are recorded in the "general" department within the General Fund.

Capital Asset and Debt Administration

At the end of fiscal year 2007, the City had approximately $3,505,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, public works equipment, and water and sewer facilities. There is no related infrastructure reported in the year end net capital investment. The City elected to follow the method of prospective reporting of infrastructure assets provided in the GASB 34 reporting pronouncement.

The City continues to pay down debt obligations related to capital investments. Outstanding revenue bonds, for the construction of sewer facilities, reported in the Sewer Fund in the amount of $675,000 represents 100 percent of the City's total debt obligations at June 30, 2007. Historically, the City's Tax Increment Financing Authority has contributed $150,000 annually towards the repayment of the debt.

The City also funds equipment replacements by setting aside cash in the General Fund and maintains an Equipment Fund. The Equipment Fund charges City departments for the use of equipment. Monies collected accumulate towards the replacement of equipment. The City properly maintains existing equipment and carefully plans for equipment replacements to avoid burdening taxpayers with additional debt millage to replace existing equipment.

Economic Factors and Next Year's Budgets and Rates

The City of Litchfield's current economic outlook in the short term is stable; thus avoiding any necessity in raising millage rates. A recent adoption of the State of Michigan Budget has indicated that state revenue sharing will remain flat and unchanged from the 2007-2008 levels. Uncertainty in the overall regional economy lends for conservative and cautious budgeting. It is anticipated that the city will see minor growth in residential, commercial and industrial sectors.

Through a State of Michigan, Department of Transportation program, the City of Litchfield will participate in a Streetscape project. This project will require several city fund accounts to contribute to the city's share of the project.

During the 2007-2008 Fiscal Year, certain expenditures are assumed to continue beyond the rate of inflation, such as health care insurance and liability insurance. Salary and benefits for the city employees is expected to increase. However, contributions from the Tax Increment Finance Authority for economic development services are anticipated to minimize the impact of these increases.

A new cemetery agreement with Litchfield Township allowing City residents to be buried at Mt. Hope cemetery for a fee to the City citizen equal to what a Township citizen would pay is agreed by both units of governments.

Economic Factors and Next Year's Budgets and Rates (concluded)

The City of Litchfield will begin reviewing certain asset upgrades including electronic telemetry equipment used in both Water and Waste-water departments. This move will help build better reliability for these systems. The continued effort of water-meter installation will help residents and staff, monitor water usage more accurately.

Through the efforts of the Litchfield TIFA, the City of Litchfield will be working with DMCI of Hillsdale to introduce and develop wireless internet within our core business district.

Of great concern to the community, is financial uncertainty of the Litchfield School District. In 2006, the school opened with approximately four hundred eighty six (486) students. In October of 2007 school enrollment was reported at four hundred (400) students; a decrease of 86 students or 17.70% compared to the previous year. Lack of students and inadequate state funding could lead to a serious budget dilemma which could impact much of the Litchfield Community.

Contacting the City's Management

This financial report is intended to provide our 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 questions about this report, or need additional information, or would like to obtain financial statements of the City's component units, Tax Increment Finance Authority (TIFA) or Downtown Development Authority (DDA), we welcome you to contact the City's Administrative office located at 221 Jonesville Street, Litchfield, Michigan 49252.

CITY OF LITCHFIELD, MICHIGAN

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	PRIMARY GOVERNMENT			
	GOVERNMENTAL ACTIVITIES	BUSINESS ACTIVITIES	ELIMINATION OF INTERNAL BALANCES	TOTAL
ASSETS				
Current Assets:				
Cash and investments	$ 746,930	$ 1,397,790	$	$ 2,144,720
Accounts receivable	180	4,894		5,074
Interest receivable	1,273	4,829		6,102
Note receivable, current portion	2,500			2,500
Land contract receivable, current portion				
Due from other governmental units	45,213	1,649		46,862
Internal balanees		44,262	(44,262)	
Due from other funds	45			45
Prepaid expense	2,058			2,058
Inventory		20,693		20,693
Total Current Assets	$ 798,199	$ 1,474,117	$ (44,262)	$ 2,228,054
Noncurrent Assets:				
Land contract receivable, net of current portion	$	$	$	$
Investment in joint venture	44,959			44,959
Investment in land				
Infrastructure development				
Capital assets	1,858,218	6,171,944		8,030,162
Accumulated depreciation	(584,908)	(3,939,427)		(4,524,335)
Total Noncurrent Assets	$ 1,318,269	$ 2,232,517	$	$ 3,550,786
TOTAL ASSETS	$ 2,116,468	$ 3,706,634	$ (44,262)	$ 5,778,840
LIABILITIES AND NET ASSETS				
Current Liabilities:				
Accounts payable	$ 25,024	$ 3,739	$	$ 28,763
Long-term debt, current portion		120,000		120,000
Accrued liabilities	23,914	30,117		54,031
Deferred revenue	703			703
Accrued interest		3,975		3,975
Due to other governmental units	2,371			2,371
Internal balances	44,262		(44,262)	
Total Current Liabilities	$ 96,274	$ 157,831	$ (44,262)	$ 209,843
Noncurrent Liabilities:				
Compensated absences	$ 42,594	$	$	$ 42,594
Pension benefit obligation	122,558			122,558
Long-term debt, net of current portion		675,000		675,000
Total Noncurrent Liabilities	$ 165,152	$ 675,000	$	$ 840,152
Total Liabilities	$ 261,426	$ 832,831	$ (44,262)	$ 1,049,995
Net Assets:				
Invested in capital assets, net of related debt	$ 1,273,310	$ 1,433,542	$	$ 2,706,852
Restricted for bond repayment		99,528		99,528
Restricted for police training	1,446			1,446
Unrestricted	580,286	1,340,733		1,921,019
Total Net Assets	$ 1,855,042	$ 2,873,803	$	$ 4,728,845
TOTAL LIABILITIES AND NET ASSETS	$ 2,116,468	$ 3,706,634	$ (44,262)	$ 5,778,840

See accompanying notes to the basic financial statements.

COMPONENT UNITS	
TAX INCREMENT FINANCING AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY
$ 1,902,728	$ 11,898
24,693	
98,233	
	1,500
$ 2,025,654	$ 13,398
$ 730,010	$ 3,597
191,056	
809,340	
712,244	
(97,523)	
$ 2,345,127	$ 3,597
$ 4,370,781	$ 16,995
$ 12,807	$
	383
$ 12,807	$ 383
$	$
	6,388
$	$ 6,388
$ 12,807	$ 6,771
$ 614,721	$
3,743,253	10,224
$ 4,357,974	$ 10,224
$ 4,370,781	$ 16,995

CITY OF LITCHFIELD, MICHIGAN

GOVERNMENT-WIDE FINANCIAL STATEMENTS

STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

		PROGRAM REVENUES		
	EXPENSES	CHARGES FOR SERVICES	OPERATING GRANTS AND CONTRIBUTIONS	CAPITAL GRANTS AND CONTRIBUTIONS
PRIMARY GOVERNMENT				
Governmental Activities:				
General government	$ (378,276)	$ 33,574	$ 33,000	$ 5,528
Public safety	(304,884)	2,198	25,924	
Highways and streets	(78,667)		118,712	
Public works	(72,521)			
Parks and recreation	(74,357)	15,361	1,151	
Depreciation (unallocated) - excludes direct depreciation expense	(30,355)			
Total Governmental Activities	$ (939,060)	$ 51,133	$ 178,787	$ 5,528
Business-type Activities:				
Sewer Fund	$ (198,163)	$ 100,749	$ 150,000	$
Water Fund	(154,111)	154,022	2,957	
Refuse Fund	(59,436)	82,476		
Total Business-type Activities	$ (411,710)	$ 337,247	$ 152,957	$
TOTAL PRIMARY GOVERNMENT	$ (1,350,770)	$ 388,380	$ 331,744	$ 5,528
COMPONENT UNITS				
Tax Increment Finance Authority	$ (362,282)	$	$	$
Downtown Development Authority	(1,623)		1,000	
TOTAL COMPONENT UNITS	$ (363,905)	$	$ 1,000	$

GENERAL REVENUES
- Property taxes
- State-shared revenues
- Interest
- Lease revenue
- Other
- Transfers

TOTAL GENERAL REVENUES

SIGNIFICANT ITEM
- Change in accounting estimate

CHANGE IN NET ASSETS

NET ASSETS - BEGINNING OF YEAR

PRIOR PERIOD ADJUSTMENT

NET ASSETS - BEGINNING OF YEAR, RESTATED

NET ASSETS - END OF YEAR

See accompanying notes to the basic financial statements.

NET (EXPENSE) REVENUE AND CHANGES IN NET ASSETS				
PRIMARY GOVERNMENT			COMPONENT UNITS	
GOVERNMENTAL ACTIVITIES	BUSINESS-TYPE ACTIVITIES	TOTAL	TAX INCREMENT FINANCING AUTHORITY	DOWNTOWN DEVELOPMENT AUTHORITY
$ (306,174)	$	$ (306,174)	$	$
(276,762)		(276,762)		
40,045		40,045		
(72,521)		(72,521)		
(57,845)		(57,845)		
(30,355)		(30,355)		
$ (703,612)	$	$ (703,612)	$	$
$	$ 52,586	$ 52,586	$	$
	2,868	2,868		
	23,040	23,040		
$	$ 78,494	$ 78,494	$	$
$ (703,612)	$ 78,494	$ (625,118)	$	$
$	$	$	$ (362,282)	$ (623)
$	$	$	$ (362,282)	$ (623)
$ 400,066	$	$ 400,066	$ 543,570	$ 2,598
133,426		133,426		
47,429	59,853	107,282	97,191	389
20,650		20,650	33,000	
1,358		1,358		
69,500	(69,500)	-		
$ 672,429	$ (9,647)	$ 662,782	$ 673,761	$ 2,987
$	$	$	150,000	$
$ (31,183)	$ 68,847	$ 37,664	$ 461,479	$ 2,364
$ 1,886,225	$ 2,804,956	$ 4,691,181	$ 3,575,074	$ 7,860
			321,421	
$ 1,886,225	$ 2,804,956	$ 4,691,181	$ 3,896,495	$ 7,860
$ 1,855,042	$ 2,873,803	$ 4,728,845	$ 4,357,974	$ 10,224

CITY OF LITCHFIELD, MICHIGAN

BALANCE SHEET - GOVERNMENTAL FUNDS

JUNE 30, 2007

	MAJOR FUNDS				
	GENERAL	MAJOR STREET	LOCAL STREET	RECREATION	TOTAL GOVERNMENTAL FUNDS
ASSETS					
Cash and investments	$ 289,701	$ 314,153	$ 36,901	$ 4,497	$ 645,252
Interest receivable	181	851	32		1,064
Due from other governmental units	26,935	13,706	4,572		45,213
Due from other funds	45				45
Prepaid expense	2,058				2,058
TOTAL ASSETS	$ 318,920	$ 328,710	$ 41,505	$ 4,497	$ 693,632
LIABILITIES AND FUND BALANCES					
Liabilities:					
Accounts payable	$ 8,087	$ 13,416	$ 40	$ 3,286	$ 24,829
Accrued liabilities	20,940	95	368		21,403
Due to other governmental units	2,371				2,371
Total Liabilities	$ 31,398	$ 13,511	$ 408	$ 3,286	$ 48,603
Fund Balances:					
Reserved for:					
Police training - state funding	$ 1,446	$	$	$	$ 1,446
Board designated for:					
2007-2008 expenditures over revenues			9,969		9,969
Unreserved, undesignated	286,076	315,199	31,128	1,211	633,614
Total Fund Balances	$ 287,522	$ 315,199	$ 41,097	$ 1,211	$ 645,029
TOTAL LIABILITIES AND FUND BALANCES	$ 318,920	$ 328,710	$ 41,505	$ 4,497	$ 693,632

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2007

GOVERNMENTAL FUND BALANCES		$ 645,029
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		
The cost of capital assets is	$ 1,605,961	
Accumulated depreciation is	(440,500)	
		1,165,461
Receivables are expected to be collected in future years and are not available to pay for current year expenditures		2,680
Long-term liabilities are not due and payable in the current period and are not reported in the funds		
Compensated absences		(42,594)
Pension benefit obligation		(122,558)
Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund		
Assets:		
Cash	$ 101,678	
Interest receivable	209	
The cost of the capital assets is	252,257	
Accumulated depreciation is	(144,408)	
		209,736
Liabilities:		
Payables	$ (3,409)	
Internal balance	(44,262)	
		(47,671)
Investments in joint ventures are included as part of governmental activities		44,959
NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ 1,855,042

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -

GOVERNMENTAL FUNDS

YEAR ENDED JUNE 30, 2007

	MAJOR FUNDS				
	GENERAL	MAJOR STREET	LOCAL STREET	RECREATION	TOTAL GOVERNMENTAL FUNDS
REVENUES					
Taxes	$ 400,066	$	$	$	$ 400,066
State shared revenues	134,350				134,350
State gasoline tax revenue		85,860	27,848		113,708
State grant	5,528	2,497	2,497		10,522
Charges for services	24,628			15,361	39,989
Licenses and permits	9,696				9,696
Fines, fees, and forfeits	1,448				1,448
Community contributions		10		1,151	1,161
Component unit contributions	58,000				58,000
Interest	30,614	14,390	1,859	566	47,429
Lease revenue	20,650				20,650
Other	922			446	1,368
TOTAL REVENUES	$ 685,902	$ 102,757	$ 32,204	$ 17,524	$ 838,387
EXPENDITURES					
General government	$ 325,551	$	$	$	$ 325,551
Public safety	274,579				274,579
Highways and streets		46,341	35,214		81,555
Public works	69,467				69,467
Parks and recreation	20,993			44,443	65,436
Capital outlay	7,816				7,816
TOTAL EXPENDITURES	$ 698,406	$ 46,341	$ 35,214	$ 44,443	$ 824,404
REVENUES OVER (UNDER) EXPENDITURES	$ (12,504)	$ 56,416	$ (3,010)	$ (26,919)	$ 13,983
OTHER FINANCING SOURCES (USES)					
Operating transfers in	$ 89,362	$	$ 5,510	$ 31,402	$ 126,274
Operating transfers out	(31,402)	(13,010)	(2,500)	(200)	(47,112)
TOTAL OTHER FINANCING SOURCES (USES)	$ 57,960	$ (13,010)	$ 3,010	$ 31,202	$ 79,162
NET CHANGE IN FUND BALANCE	$ 45,456	$ 43,406	$	$ 4,283	$ 93,145
FUND BALANCES - BEGINNING	242,066	271,793	41,097	(3,072)	551,884
FUND BALANCES - END OF YEAR	$ 287,522	$ 315,199	$ 41,097	$ 1,211	$ 645,029

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, 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		$ 93,145
Amounts reported for governmental activities in the statement of activities are different because:		
Governmental funds report capital outlays as expenditures, and in the statement of activities these costs are allocated over their estimated useful lives as depreciation:		
Depreciation expense	$ (30,355)	
Capital outlay	5,528	
		(24,827)
Net income from joint venture is not recorded in the governmental funds, but is recorded in the statement of activities		14,369
Actuarial valuation of the pension benefit obligation that results in an increase in the obligation is not recorded in the governmental funds, but is recorded in the governmental activities as an increase in current year contributions		(122,558)
Net changes in accumulated employee sick and vacation pay are recorded when incurred in the statement of activities		615
Internal Service Funds are also included as governmental activities to the extent of activity occurring between governmental funds and the Internal Service Fund		13,083
Included in governmental activities is an expenditure for the forgiveness of the current amount due from a local industrial corporation on a long-term note receivable. Where as, governmental funds recognize revenue and expenditures when cash is either collected or disbursed		(5,000)
Cash collections on delinquent sidewalk receivables are included in the governmental funds, but are not included in revenues in the governmental activities		(10)
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		$ (31,183)

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF NET ASSETS

JUNE 30, 2007

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
ASSETS		
Current Assets:		
Cash and investments	$ 1,006,757	$ 369,878
Accounts receivables	1,748	1,347
Due from other governmental units		
Interest receivable	3,175	1,654
Inventory		20,693
Total Current Assets	$ 1,011,680	$ 393,572
Noncurrent Assets:		
Capital assets	$ 4,292,269	$ 1,879,675
Accumulated depreciation	(2,946,083)	(993,344)
Total Noncurrent Assets	$ 1,346,186	$ 886,331
TOTAL ASSETS	$ 2,357,866	$ 1,279,903
LIABILITIES AND NET ASSETS		
Current Liabilities:		
Long-term debt, current portion	$ 120,000	$
Accounts payable	1,320	677
Accrued liabilities	12,775	15,829
Accrued interest	3,975	
Total Current Liabilities	$ 138,070	$ 16,506
Noncurrent Liabilities:		
Long-term debt, net of current portion	$ 675,000	$
Total Liabilities	$ 813,070	$ 16,506
Net Assets:		
Invested in capital assets, net of related debt	$ 547,211	$ 886,331
Restricted for bond repayment	99,528	
Designated for 2007-2008 expenses over revenues	9,839	351,726
Unrestricted, undesignated	888,218	25,340
Total Net Assets	$ 1,544,796	$ 1,263,397
TOTAL LIABILITIES AND NET ASSETS	$ 2,357,866	$ 1,279,903

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
MAJOR FUND		NONMAJOR FUND
REFUSE	TOTAL	EQUIPMENT
$ 21,155	$ 1,397,790	$ 101,678
1,799	4,894	
1,649	1,649	
	4,829	209
	20,693	
$ 24,603	$ 1,429,855	$ 101,887
$	$ 6,171,944	$ 252,257
	(3,939,427)	(144,408)
$	$ 2,232,517	$ 107,849
$ 24,603	$ 3,662,372	$ 209,736
$	$ 120,000	$
1,742	3,739	195
1,513	30,117	3,214
	3,975	
$ 3,255	$ 157,831	$ 3,409
$	$ 675,000	$
$ 3,255	$ 832,831	$ 3,409
$	$ 1,433,542	$ 107,849
	99,528	
	361,565	7,639
21,348	934,906	90,839
$ 21,348	$ 2,829,541	$ 206,327
$ 24,603	$ 3,662,372	$ 209,736

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF ENTERPRISE FUNDS BALANCE SHEET
WITH THE STATEMENT OF NET ASSETS

YEAR ENDED JUNE 30, 2007

ENTERPRISE FUND NET ASSETS	$ 2,829,541
Amounts reported for business activities in the statement of net assets are different because:	
Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	44,262
NET ASSETS OF BUSINESS-TYPE ACTIVITIES	$ 2,873,803

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS

YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS	
	MAJOR FUNDS	
	SEWER	WATER
OPERATING REVENUES		
Charges for services	$ 100,749	$ 154,022
OPERATING EXPENSES		
General operations and maintenance	$ 85,379	$ 104,220
Depreciation	101,207	56,015
TOTAL OPERATING EXPENSES	$ 186,586	$ 160,235
OPERATING INCOME (LOSS)	$ (85,837)	$ (6,213)
NON-OPERATING REVENUES (EXPENSES)		
Interest income	$ 38,825	$ 20,830
Interest expense	(17,700)	
Contributions	150,000	2,957
TOTAL NET NON-OPERATING REVENUES	$ 171,125	$ 23,787
INCOME BEFORE OPERATING TRANSFERS	$ 85,288	$ 17,574
OPERATING TRANSFERS		
Operating transfers in	$	$ 200
Operating transfers out	(30,000)	(30,000)
TOTAL NET OPERATING TRANSFERS	$ (30,000)	$ (29,800)
NET INCOME	$ 55,288	$ (12,226)
TOTAL NET ASSETS - BEGINNING OF YEAR	1,489,508	1,275,623
TOTAL NET ASSETS - END OF YEAR	$ 1,544,796	$ 1,263,397

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
MAJOR FUND		NONMAJOR FUND
REFUSE	TOTAL	EQUIPMENT
$ 82,476	$ 337,247	$ 81,714
$ 59,436	$ 249,035	$ 53,846
	157,222	14,412
$ 59,436	$ 406,257	$ 68,258
$ 23,040	$ (69,010)	$ 13,456
$ 198	$ 59,853	$ 4,536
	(17,700)	
	152,957	17,000
$ 198	$ 195,110	$ 21,536
$ 23,238	$ 126,100	$ 34,992
$	$ 200	$
(7,500)	(67,500)	(11,862)
$ (7,500)	$ (67,300)	$ (11,862)
$ 15,738	$ 58,800	$ 23,130
5,610	2,770,741	183,197
$ 21,348	$ 2,829,541	$ 206,327

CITY OF LITCHFIELD, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS TO THE STATEMENT OF ACTIVITIES

YEAR ENDED JUNE 30, 2007

NET CHANGE IN NET ASSETS - TOTAL ENTERPRISE FUNDS	$ 58,800
Amounts reported for business activities in the statement of activities are different because:	
Internal Service Funds are also included as business activities to the extent of activity occurring between Enterprise Funds and the Internal Service Fund	10,047
CHANGE IN NET ASSETS OF BUSINESS ACTIVITIES	$ 68,847

See accompanying notes to the basic financial statements.

CITY OF LITCHFIELD, MICHIGAN

PROPRIETARY FUNDS

STATEMENT OF CASH FLOWS

YEAR ENDED JUNE 30, 2007

	ENTERPRISE FUNDS	
	MAJOR FUND	
	SEWER	WATER
CASH FLOWS FROM OPERATING ACTIVITIES		
Cash receipts from customers	$ 99,941	$ 153,875
Cash receipts for interfund services provided		
Payments to employees	(27,799)	(36,809)
Payments to suppliers	(37,767)	(45,933)
Payments to interfund services provided	(7,541)	(8,514)
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 26,834	$ 62,619
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Contribution from component unit	$ 150,000	$ 2,958
Transfer from other funds		200
Transfer to other funds	(30,000)	(30,000)
NET CASH PROVIDED (USED) BY NONCAPITAL FINANCING ACTIVITIES	$ 120,000	$ (26,842)
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Interest paid on capital debt	$ (18,300)	$
Principal paid on capital debt	(120,000)	
Proceeds from sale of equipment		
Purchase of capital assets	(75,282)	(93,034)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	$ (213,582)	$ (93,034)
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest	$ 48,908	$ 21,418
NET CHANGE IN CASH	$ (17,840)	$ (35,839)
CASH AND INVESTMENTS - BEGINNING OF YEAR	1,024,597	405,717
CASH AND INVESTMENTS - END OF YEAR	$ 1,006,757	$ 369,878
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Operating income (loss)	$ (85,837)	$ (6,213)
Adjustments to reconcile operating income to net cash provided (used) by operating activities:		
Depreciation expense	$ 101,207	$ 56,015
Loss on sale of equipment		
(Increase) decrease in:		
Accounts receivable	(808)	(412)
Inventory		80
Increase (decrease) in:		
Accrued liabilities	11,783	13,518
Accounts payable	489	(369)
Total Adjustments	$ 112,671	$ 68,832
NET CASH PROVIDED BY OPERATING ACTIVITIES	$ 26,834	$ 62,619

See accompanying notes to the basic financial statements.

ENTERPRISE FUNDS		INTERNAL SERVICE FUND
MAJOR FUND		NONMAJOR FUND
REFUSE	TOTAL	EQUIPMENT
$ 81,807	$ 335,623	$
		81,714
(7,672)	(72,280)	(12,774)
(45,593)	(129,293)	(35,510)
(3,130)	(19,185)	
$ 25,412	$ 114,865	$ 33,430
$	$ 152,958	$ 17,000
	200	
(7,500)	(67,500)	(11,862)
$ (7,500)	$ 85,658	$ 5,138
$	$ (18,300)	$
	(120,000)	
		3,334
	(168,316)	(21,990)
$	$ (306,616)	$ (18,656)
$ 198	$ 70,524	$ 4,500
$ 18,110	$ (35,569)	$ 24,412
3,045	1,433,359	77,266
$ 21,155	$ 1,397,790	$ 101,678
$ 23,040	$ (69,010)	$ 13,456
$	$ 157,222	$ 14,412
		2,996
(669)	(1,889)	
	80	
	25,301	(467)
3,041	3,161	3,033
$ 2,372	$ 183,875	$ 19,974
$ 25,412	$ 114,865	$ 33,430

CITY OF LITCHFIELD, MICHIGAN

FIDUCIARY FUNDS

STATEMENT OF ASSETS AND LIABILITIES

JUNE 30, 2007

	AGENCY FUND
	TAX COLLECTION FUND
ASSETS	
Cash	$ 45
LIABILITIES	
Due to other governmental units	$ 45

See accompanying notes to the basic financial statements.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies of the City of Litchfield, Michigan conform to generally accepted accounting principles as applicable to governments. The following is a summary of the more significant policies:

FINANCIAL REPORTING ENTITY

On June 1, 1970, the City of Litchfield, Michigan (the "City") adopted the Home Rule Charter. The City operates under a Council-Manager form of government and provides the following services as authorized by its charter: Public Safety (Police and Fire), Highways and Streets, Sanitation, Health, Recreation, Public, Improvements, Planning and Zoning, and General Administrative Services.

As required by generally accepted accounting principles, the financial statements of the reporting entity include those of the City (the primary government) and its component units. The component units discussed below are included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

In conformity with generally accepted accounting principles, the financial statements of the component units have been included in the financial reporting entity as discretely presented component units.

Discretely Presented Component Units - The component unit columns in the basic financial statements include the financial data of the City's component units. The units are reported in a separate column to emphasize they are legally separate from the City.

Tax Increment Finance Authority (TIFA) - The Authority is governed by a separate board appointed by the City Council to promote economic growth in the City of Litchfield.

Downtown Development Authority - The Authority is governed by a separate board appointed by the City Council to formulate plans for design, promotion and organization, and economic restructuring of the City's downtown area.

Brownsfield Redevelopment Authority (BRA) - The Authority was established under the authority contained in Act 381, of the Michigan Public Acts of 1996, as amended. The Authority is governed by a separate board appointed by the City Council to facilitate the implementation of plans relating to the identification and treatment of environmentally distressed areas so as to promote revitalization in the City of Litchfield.

The basic financial statements do not include financial data of the Brownsfield Redevelopment Authority since it did not have any financial transactions during the year ended June 30, 2007.

Copies of the TIFA and DDA financial statements may be obtained at the City offices located at 221 Jonesville Street, Litchfield, Michigan 49252.

Joint Venture – Discussed at Note 2.

ECONOMIC DEPENDENCY

The City is economically dependent on the State of Michigan for state shared revenues. Absent allocations from the State, the City's operating results would report expenditures exceeding revenues in its General, Major Street, and Local Street Funds. Furthermore, the aforementioned funds would be in a deficit position within a two year period continuing the services the City currently offers.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS

The government-wide financial statements report information on all of the non-fiduciary activities of the primary government and its component units. The effect of inter-fund activity has been removed from these statements. Governmental activities are normally supported by taxes and intergovernmental revenues. Business-type activities rely on user fees and charges.

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

Separate financial statements are provided for governmental funds and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental and proprietary 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. 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.

When expenses are incurred for purposes for which both restricted and unrestricted net assets are available, restricted net assets are used prior to unrestricted net assets.

Governmental Funds

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 government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures related to compensated absences, and claims and judgments are recorded only when payment is due.

Revenues are recognized in the accounting period in which they become both measurable and available to finance expenditures of the fiscal period. Major revenue types for which receivables are recorded on the current accounting period's balance sheet include property taxes and State-shared revenues. All other revenue items are considered to be available only when cash is received by the City.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONTINUED)

The City reports the following major governmental funds:

The *General Fund* is the general operating fund of the City. It is used to account for all financial resources of the general government, except those required to be accounted for in another fund.

The *Major and Local Street Funds* are Special Revenue Funds that account for revenue received from gasoline tax through the State of Michigan under Act 51. Expenditures of these funds include the maintenance of major and local streets, and roadway improvements.

The *Recreation Fund* is a Special Revenue Fund that accounts for resources that are expended on recreation activities carried out by the City. Revenue is primarily comprised of public and private donations, grants, and service charges.

Proprietary Funds

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 the proprietary funds relates to charges to customers for services. Operating expenses for proprietary funds include the cost of services, administrative expenses, and depreciation of capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses. The City maintains the two proprietary fund types, enterprise and internal service funds.

Enterprise Funds are used to account for business-like activities provided to the general public. These activities are financed primarily by user charges and the measurement of financial activity focuses on net income measurement similar to the private sector.

The City reports the following major enterprise funds:

The *Water and Sewer Funds* account for the activities of the water distribution and sewage collection systems.

The *Refuse Fund* accounts for solid waste disposal billings and operating expenses.

The City reports the following *Internal Service Fund*:

The *Equipment Fund* accounts for shared machinery and equipment purchases and maintenance provided to other departments of the City on a cost reimbursement basis. This fund accounted for 35% and 65% of its activity with business-type and governmental activities, respectively. As a result, the assets and equity were reported in governmental activities and the net profit was allocated on a pro rata basis, based on the aforementioned percentages, to each of the activities. Business-type and governmental activities reported net profit of $10,047 and $13,083, respectively, for a total net profit of $23,130. Therefore, the Internal Service Fund's net assets in the total amount of $206,327 is reported in the business-type and governmental activities in the amounts of $44,262 and $162,065, respectively.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

MEASUREMENT FOCUS, BASIS OF ACCOUNTING, AND FINANCIAL STATEMENT PRESENTATION (CONCLUDED)

Fiduciary Funds (Not included in government-wide statements)

Fiduciary Funds are used to account for assets held in a trustee or agency capacity for others and therefore are not available to support City operations. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations. Agency funds are not included in the government-wide statements. The City presently collects and distributes property taxes on behalf of and to other local units of government.

General Information

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.

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

BANK DEPOSITS AND INVESTMENTS

Cash includes cash on hand, demand deposits, savings, and certificate of deposits. Investments include municipal mutual funds and municipal investment pools that are highly liquid.

RECEIVABLES AND PAYABLES

Outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances 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 reported at their net realizable values.

CAPITAL ASSETS

Capital assets that include land, buildings, improvements, equipment and vehicles are reported in the government-wide financial statements. The City defines capital assets as assets with an initial individual cost of more than $2,000 and an estimated useful life in excess of 2 years. Capital 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. Costs of normal repair and maintenance that do not add to the value or materially extend assets life are not capitalized but rather expensed in the period incurred.

The City has elected under Governmental Accounting Standards Board Statement No. 34 not to report infrastructure retrospectively. Newly acquired or constructed infrastructure will be capitalized and depreciated over their useful lives. There were no additions to infrastructure during the year.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

CAPITAL ASSETS (CONCLUDED)

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

	Years
Buildings	50
Improvements	10 - 20
Equipment	3 - 20
Vehicles	3 - 5

COMPENSATED ABSENCES

It is the City's policy to permit employees to accumulate earned but unused sick and vacation leave time. A total of 5 to 25 days vacation and 6 days of sick leave per year may be accumulated by each employee. Employees are allowed to accumulate and carryover ten vacation days to the following year with management approval. Otherwise vacation time not used is forfeited.

Furthermore, employees are allowed to accumulate no more than sixty days of sick leave time. Upon termination of employment, if an employee has five consecutive years or more of employment service the employee will be paid one-fourth of their accumulated unused sick leave time. Employees with ten consecutive years or more of employment service will be paid one-half of their accumulated unused sick leave time upon termination. Upon retirement, an employee will receive pay at their regular hourly rate for a maximum thirty days of accumulated unused sick leave time.

During the year the net decrease in compensated absences was $616 leaving an ending balance of $42,594.

LONG-TERM OBLIGATIONS

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. If applicable, bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the straight-line 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. Issuance costs are reported as debt service expenditures.

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.

NOTE 1: SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONCLUDED)

PROPERTY TAX

The City of Litchfield, Michigan bills and collects property taxes and distributes them to other local units of government. Properties are assessed as of December 31, and the related real property taxes are levied and become payable on July 1 of the following year for summer taxes and December 1 for winter taxes. Summer and winter taxes are due without penalty if paid by September 14 and February 14, respectively. Delinquent real property taxes are turned over to the County and added to the County tax roll. The County remits all of the City's uncollected delinquent real property tax to the City by June 30. Uncollected personal property taxes are not accrued because the date of collection is uncertain.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

ENCUMBRANCE ACCOUNTING

Encumbrances for goods and services are documented by requisitions or contracts. Appropriations lapse at June 30 and any encumbrances outstanding at that time are to be either canceled or appropriately provided for in the subsequent year's budget. There were no outstanding encumbrances at June 30, 2007.

BUDGETS AND BUDGETARY ACCOUNTING

The City's procedures in establishing the budgetary data reflected in the financial statements are as follows:

1. The City Manager submits to the City Council a proposed operating budget for the fiscal year. The operating budget includes proposed expenditures and the means of financing them.

2. Public hearings are conducted to obtain taxpayer comments.

3. Prior to July 1, the budget is legally enacted through passage of a resolution.

4. The City Manager is authorized to transfer budgeted amounts between departments within any fund; however, any revisions that change the total expenditures of any fund must be approved by the City Council.

5. Formal budgetary integration is employed as a management control device during the year for the General Fund and Special Revenue Funds.

6. Budgets for the General and Special Revenue Funds are adopted on a basis consistent with generally accepted accounting principles, which is the modified accrual basis used to reflect actual results, and consist only of those amounts contained in the formal budget approved or as amended by the City Council. The General Fund budget is adopted at the department level and all other funds are adopted at the fund level.

NOTE 2: JOINT VENTURE

The City participates with the Litchfield Township in the Litchfield Fire Department (the "Department"), a joint venture pursuant to an agreement entered into between both parties. In accordance to the provisions of Governmental Accounting Standards Board No. 14 the joint venture results from the on going financial responsibility of the Department's operations agreed to by the aforementioned municipalities pursuant to the contractual agreement. A seven member Board of Directors comprised of two members of the City of Litchfield Council, two members of Litchfield Township Board, one member of Scipio Township and Butler Township Boards, and one member from the community at large govern the Department.

Either the City or Litchfield Township has the power to terminate the joint venture. However, notice of termination must be given six months prior to the Department's fiscal year end. Upon termination, all property of the Litchfield Fire Department will be liquidated and any outstanding indebtedness will be paid. The proceeds then remaining will be divided equally between the City of Litchfield, Michigan and the Litchfield Township.

The Department is funded by fire contracts with local townships and equal contributions made by the City of Litchfield, Michigan and the Litchfield Township. The Fire Department reported revenues in excess of expenditures in the amount of $28,738 in its year end June 30, 2007 general ledger. The City of Litchfield, Michigan reported $14,369 (fifty-percent) of the revenues over expenditures in its government-wide financial statements in governmental activities. The City's investment in the joint venture is reported in the statement of net assets under governmental activities in the amount of $44,959. The Fire Department's financial activity for the year ended June 30, 2007 has not been audited, and we were not engaged to audit the Fire Department's financial statements as part of our audit of the City's basic financial statements.

At year end June 30, 2007 the Department does not have title to any real property or rescue vehicles. The City of Litchfield, Michigan and the Litchfield Township have title, either jointly or individually, to all fire rescue vehicles used in the Department's operations.

Copies of the Fire Department's financial statements may be obtained at the City of Litchfield, Michigan offices.

NOTE 3: DEPOSITS AND INVESTMENTS

Michigan Compiled Laws, Section 129.91, 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 established by not less than two standard rating services and that matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions that at the time of purchase are rated as investment grade by not less than one standard rating service; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

NOTE 3: DEPOSITS AND INVESTMENTS (CONCLUDED)

At year end, deposits and investments were comprised of the following:

	Governmental Activities	Business-Type Activities	Total Primary Government	Component Units	Agency Fund
Cash	$ 475,312	$ 1,197,365	$ 1,672,677	$ 1,305,387	$ 45
Cash – restricted	1,446	99,528	100,974		
	$ 476,758	$ 1,296,893	$ 1,773,651	$ 1,305,387	$ 45
Investments	$ 270,172	$ 100,897	$ 371,069	$ 609,239	$
Total	$ 746,930	$ 1,397,790	$ 2,144,720	$ 1,914,626	$ 45

The breakdown between cash and investments for the City and component units are as follows:

	Primary Government	Component Units	Agency Fund
Cash (checking accounts, savings accounts and Certificates of Deposits)	$ 1,773,551	$ 1,305,387	$ 45
Investment in money market fund		609,239	
Investment in municipal investment pool	371,069		
Petty cash	100		
Total	$ 2,144,720	$ 1,914,626	$ 45

Deposits

The City and its component unit's deposits were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at $4,078,173. Of that amount, $916,968 was covered by federal depository insurance and the remainder was 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 bank deposits. As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those with an acceptable estimated risk level are used as depositories.

Investments

Investments are normally categorized to give an indication of the level of risk assumed by the City. As of June 30, 2007, the City and its component unit, the Tax Increment Financing Authority, investments were rated AAA/V1 by Fitch Ratings-New York and AAA by Standard & Poor's rating service, respectively. Additionally, there is no custodial risk because the fund is not evidenced by securities that exist in physical or book entry form.

The investment policy adopted by the City Council is in accordance with Public Act 196 of 1997.

NOTE 4: NOTE RECEIVABLE

In January 1997 the City entered into an agreement to sell land to a local industrial company in the amount of $50,000. The terms of the agreement require the local company to pay $5,000 annually, including interest at 10%. However, if the local company achieves employment levels annually as stated in the agreement the City will forgive the annual principal payments, including interest, each year employment levels are met.

During the year the City forgave principal payments of $5,000. At June 30, 2007 the outstanding balance due from the local company was $2,500. Following are future principal maturities:

June 30	Amount
2008	$ 2,500

NOTE 5: CAPITAL ASSETS

Capital asset activity of the primary government was as follows:

Governmental Activities	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets not being depreciated:				
Land	$ 866,073	$	$	$ 866,073
Capital assets being depreciated:				
Buildings and improvements	316,082			316,082
Equipment	546,581	27,518	11,992	562,107
Vehicles	49,040			49,040
Technology	24,954			24,954
Pool	39,962			39,962
Subtotal	$ 1,842,692	$ 27,518	$ 11,992	$ 1,858,218
Accumulated depreciation:				
Buildings and improvements	$ 194,162	$ 5,298	$	$ 199,460
Equipment	287,226	31,880	5,666	313,440
Vehicles	45,040	2,000		47,040
Technology	16,382	3,591		19,973
Pool	2,997	1,998		4,995
Subtotal	$ 545,807	$ 44,767	$ 5,666	$ 584,908
Net Capital Assets	$ 1,296,885	$ (17,249)	$ 6,326	$ 1,273,310

Governmental activities depreciation expense of $44,767 is comprised of unallocated and allocated depreciation expense of $30,355 and $14,412, respectively. Allocated depreciation expense is calculated on capital assets maintained in the Internal Service Fund. See significant accounting policies regarding Internal Service Funds.

NOTE 5: CAPITAL ASSETS (CONCLUDED)

Business-type Activities	Balance July 1, 2006	Additions	Disposals	Balance June 30, 2007
Capital assets not being depreciated:				
Land	$ 279,190	$	$	$ 279,190
Capital assets being depreciated:				
Water and sewer distribution system	5,701,538	168,316		5,869,854
Vehicles	22,900			22,900
Subtotal	$ 6,003,628	$ 168,316	$	$ 6,171,944
Accumulated depreciation:				
Water and sewer distribution system	$ 3,770,373	$ 152,642	$	$ 3,923,015
Vehicles	11,832	4,580		16,412
Subtotal	$ 3,782,205	$ 157,222	$	$ 3,939,427
Net Capital Assets	$ 2,221,423	$ 11,094	$	$ 2,232,517

Depreciation expense charged to business-type activities was $157,222.

NOTE 6: LONG-TERM DEBT

Long-term debt at June 30, 2007 is comprised of the following:

Revenue Bonds, $2,190,000 Michigan State Revolving Loan due in annual installments of $25,000 to $135,000 at an annual interest rate of 2% through April 1, 2014	$ 795,000
Less: current portion of long-term debt	120,000
TOTAL LONG-TERM DEBT	$ 675,000

The following is a summary of changes in long-term debt:

	Balance July 1, 2006	Additions	Reductions	Balance June 30, 2007
Business-type Activities				
Revenue bonds	$ 915,000	$	$ 120,000	$ 795,000

Interest expense incurred during the year totaled $17,700 and is reported as a direct function expense. Cash paid for interest during the year totaled $18,300.

NOTE 6: LONG-TERM DEBT (CONCLUDED)

The following is a schedule of principal and interest maturities:

	Business-type Activities		
	Principal	Interest	Total
2008	$ 120,000	$ 15,900	$ 135,900
2009	125,000	13,500	138,500
2010	125,000	11,000	136,000
2011	130,000	8,500	138,500
2012	130,000	5,900	135,900
2013-2014	165,000	3,900	168,900
	$ 795,000	$ 58,700	$ 853,700

NOTE 7: INTERFUND RECEIVABLES AND PAYABLES

The following are interfund receivables (due from) and interfund payables (due to) reported in fund activities:

Due From – Collectible By:	Due To – Payable By:	
General Fund	Trust & Agency Fund	$ 45

NOTE 8: OPERATING LEASE

In fiscal year 2004 the City entered into a lease agreement to lease City owned farmland to a local individual. The terms of the lease require the individual to pay the City $5,385 annually, through April 1, 2009.

Future minimum lease payments to be received from the individual are as follows:

June 30	Amount
2008	$ 5,385
2009	5,385
	$ 10,770

NOTE 9: OPERATING TRANSFERS

Interfund transfers for the current year are as follows:

General Fund Activity		
Transfers in to:	Transfers (out) of:	
General Fund	Major Street Fund	$ 7,500
General Fund	Local Street Fund	2,500
General Fund	Refuse Fund	7,500
General Fund	Sewer Fund	30,000
General Fund	Water Fund	30,000
General Fund	Equipment Fund	11,862
Total		$ 89,362
Recreation Fund	General Fund	$ 31,402
Recreation Fund Activity		
Transfers in to:	Transfers (out) of:	
Water Fund	Recreation Fund	$ 200
Local Street Fund Activity		
Transfers in to:	Transfers (out) of:	
Local Street Fund	Major Street Fund	$ 5,510

Transfers from the General Fund to other funds are to support the operations of those funds. Transfers from other funds to the General Fund are reimbursements for administration support.

Transfer from the Recreation Fund to the Water Fund is reimbursement for water usage in the City's swimming pool.

Transfer from Major Street Fund to Local Street Fund is for local street maintenance.

NOTE 10: COMPONENT UNIT CONTRIBUTIONS

During the year the City of Litchfield's Tax Increment Financing Authority (TIFA) contributed $225,000 to the City's operations to support the following activities:

General Fund	
Reimburse City for administration cost	$ 33,000
Fire support to the industrial park	25,000
	$ 58,000
Internal Service Equipment Fund	
Capital support for equipment replacement and land maintenance	$ 17,000
Sewer Fund	
Support towards bond obligation	$ 150,000

NOTE 11: EXPENDITURES OVER BUDGET AND FUND DEFICIT

P.A. 621 of 1978 Section 18, as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated. The approved General Fund budget of the City was adopted at the department level. During the year ended June 30, 2007, the City incurred expenditures in the fund, which were in excess of the amended budget as follows:

	Final Budget	Actual	Unfavorable Variance
General Fund			
Public Works	$ 68,737	$ 69,467	$ 730
Recreation Fund	$ 18,665	$ 20,993	$ 2,328

NOTE 12: RETIREMENT PLAN

Plan Description

The City participates in the Municipal Employees' Retirement System of Michigan (MERS), an agent multiple employer plan administered by the Retirement Board of MERS. The Plan provides retirement and disability benefits, annual cost of living adjustments and death benefits to Plan members and beneficiaries. The MERS Retirement Board establishes and amends the benefit provisions of the participants in MERS. The Municipal Employees Retirement System of Michigan issues a publicly available financial report that includes financial statements and required supplementary information for MERS. That report may be obtained by writing to the Municipal Employees Retirement System of Michigan, 447 N. Canal Road, Lansing, Michigan 48917, or by calling (800) 767-6377.

Funding Policy

The City's annual contribution requirement is .73% and 1.44% of participating employee's covered payroll effective July 1, 2008 and 2007, respectively. Participating employees are required to contribute 7.00% of their annual covered payroll. These contribution percentages are based on the actuarial valuation date as of December 31, 2006. The contribution requirements of the City are established and may be amended by the Retirement Board of MERS. The contribution requirements of plan members are established and may be amended by the City depending on the MERS contribution program adopted by the City.

Funding Progress

The required contribution was determined as part of the December 31, 2006 actuarial valuation using the entry age normal actuarial method. The significant actuarial assumptions used include (a) a rate of return of the investment of present and future assets of 8%; (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation; and (c) additional projected salary increases of 0.0% to 8.40% per year, depending on age, attributable to longevity and merit.

NOTE 12: RETIREMENT PLAN (CONCLUDED)

Information related to funding of the pension benefit obligation as of December 31, 2006 actuarial valuation is as follows:

Pension Benefit Obligation

Actuarial Accrued Liability:	
Current employees –	
Accumulated employee contributions including allocated investment income	$ 313,587
Employer financed	231,404
Total Actuarial Accrued Liability (AAL)	$ 544,991
Net assets available for benefits at actuarial value (market value is $399,191)	393,684
Unfunded Actuarial Accrued Liability (UAAL)	$ 151,307

The actuarial value of MERS assets was determined on the basis of a method that assumes the fund earns the expected rate of return, and includes an adjustment to reflect fair value. The City's unfunded actuarial accrued liability is being amortized as a level percentage of payroll on an open basis. The remaining amortization period at December 31, 2006 was 29 years.

Trend Information

YEAR ENDED JUNE 30,	PENSION COST (APC)	PERCENTAGE CONTRIBUTED	NET PENSION OBLIGATION
2006	$ -	N/A	$ -
2007	-	N/A	-

The required supplementary information (see table of contents) contained in the additional information is designed to provide information about the plan's progress in accumulating sufficient assets to pay benefits when due.

NOTE 13: CONTINGENCIES

Under the terms of various Federal and State grants and regulatory requirements, periodic audits are required and certain costs may be questioned as not being appropriate expenditures under the terms of the grants and requirements. Such audits could lead to reimbursement to the grantor or regulatory agencies. However, City management does not believe such disallowances, if any, would be material to the financial position of the City.

As is the case with other entities, the City faces exposure from potential claims and legal proceedings involving environmental matters. No such claims or proceedings have been asserted as of June 30, 2007.

NOTE 14: RISK MANAGEMENT

The City of Litchfield, Michigan is exposed to various risks of loss related to property loss, torts, errors, and omissions, employee injuries, unemployment benefits, as well as medical and workmen's compensation benefits provided to employees. The City of Litchfield, Michigan has purchased commercial insurance for general liability on buildings and property, equipment damage and theft, employee theft, and limited tort claims for specific City of Litchfield, Michigan facilities or events.

The City participates in the Michigan Municipal League Workers Compensation Fund, a public risk pool established to operate a common risk management and insurance program for municipalities. The City pays premiums to the Fund for its workers' disability compensation insurance coverage. The agreement for formation of the fund provides that the Fund will be self-sustaining through member premiums.

The City continues to carry commercial insurance for all other risks of loss, including employee health and accident insurance. Settled claims for the commercial insurance have not exceeded the amount of coverage in any of the past three years. There was no reduction in coverage obtained through commercial insurance during the past year.

REQUIRED SUPPLEMENTAL INFORMATION

CITY OF LITCHFIELD, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE
GENERAL FUND

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
Taxes	$ 380,602	$ 400,431	$ 400,066	$ (365)
State shared revenues	138,614	134,800	134,350	(450)
State grant			5,528	5,528
Charges for services	24,394	24,394	24,628	234
Licenses and permits	12,516	8,784	9,696	912
Fines, fees, and forfeits	2,500	650	1,448	798
Component unit contributions	48,000	78,000	58,000	(20,000)
Interest	15,000	28,000	30,614	2,614
Lease revenue	5,385	20,650	20,650	
Other			922	922
TOTAL REVENUES	$ 627,011	$ 695,709	$ 685,902	$ (9,807)
EXPENDITURES				
General government	$ 319,112	$ 342,781	$ 325,551	$ 17,230
Public safety	265,317	281,216	274,579	6,637
Public works	49,154	68,737	69,467	(730)
Parks	21,859	18,665	20,993	(2,328)
Capital outlay	2,640	22,870	7,816	15,054
TOTAL EXPENDITURES	$ 658,082	$ 734,269	$ 698,406	$ 35,863
REVENUES OVER (UNDER) EXPENDITURES	$ (31,071)	$ (38,560)	$ (12,504)	$ 26,056
OTHER FINANCIAL SOURCES (USES)				
Operating transfers in	$ 69,500	$ 89,362	$ 89,362	$
Operating transfers (out)	(43,429)	(48,395)	(31,402)	16,993
TOTAL OTHER FINANCING SOURCES (USES)	$ 26,071	$ 40,967	$ 57,960	$ 16,993
NET CHANGE IN FUND BALANCE	$ (5,000)	$ 2,407	$ 45,456	$ 43,049
FUND BALANCE - BEGINNING OF YEAR	242,066	242,066	242,066	
FUND BALANCE - END OF YEAR	$ 237,066	$ 244,473	$ 287,522	$ 43,049

CITY OF LITCHFIELD, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND -
MAJOR STREET

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
State gasoline tax revenue	$ 92,593	$ 87,977	$ 85,860	$ (2,117)
State grant	5,392	5,392	2,497	(2,895)
Community contributions			10	10
Interest	5,000	13,200	14,390	1,190
TOTAL REVENUES	$ 102,985	$ 106,569	$ 102,757	$ (3,812)
EXPENDITURES				
Road maintenance	$ 37,643	$ 34,703	$ 24,350	$ 10,353
Road construction	31,650		13,174	(13,174)
Administration	10,026	19,357	8,817	10,540
TOTAL EXPENDITURES	$ 79,319	$ 54,060	$ 46,341	$ 7,719
REVENUES OVER EXPENDITURES	$ 23,666	$ 52,509	$ 56,416	$ 3,907
OTHER FINANCING SOURCES (USES)				
Operating transfers (out)	$ (23,666)	$ (18,000)	$ (13,010)	4,990
NET CHANGE IN FUND BALANCE	$	$ 34,509	$ 43,406	$ 8,897
FUND BALANCE - BEGINNING OF YEAR	271,793	271,793	271,793	
FUND BALANCE - END OF YEAR	$ 271,793	$ 306,302	$ 315,199	$ 8,897

CITY OF LITCHFIELD, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE -
MAJOR SPECIAL REVENUE FUND -
LOCAL STREET

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL BUDGET TO ACTUAL
REVENUE				
State gasoline tax revenue	$ 27,323	$ 27,323	$ 27,848	$ 525
State grant			2,497	2,497
Interest	800	2,000	1,859	(141)
TOTAL REVENUES	$ 28,123	$ 29,323	$ 32,204	$ 2,881
EXPENDITURES				
Road maintenance	$ 36,123	$ 39,040	$ 26,544	$ 12,496
Administration	10,458	11,789	8,670	3,119
TOTAL EXPENDITURES	$ 46,581	$ 50,829	$ 35,214	$ 15,615
REVENUES OVER (UNDER) EXPENDITURES	$ (18,458)	$ (21,506)	$ (3,010)	$ 18,496
OTHER FINANCING SOURCES (USES)				
Operating transfers in	$ 23,407	$ 24,586	$ 5,510	$ (19,076)
Operating transfers (out)	(2,000)	(2,000)	(2,500)	(500)
TOTAL OTHER FINANCING SOURCES (USES)	$ 21,407	$ 22,586	$ 3,010	$ (19,576)
NET CHANGE IN FUND BALANCE	$ 2,949	$ 1,080	$	$ (1,080)
FUND BALANCE - BEGINNING OF YEAR	41,097	41,097	41,097	
FUND BALANCE - END OF YEAR	$ 44,046	$ 42,177	$ 41,097	$ (1,080)

CITY OF LITCHFIELD, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

BUDGETARY COMPARISON SCHEDULE
- MAJOR SPECIAL REVENUE FUND -
RECREATION

YEAR ENDED JUNE 30, 2007

	ORIGINAL BUDGET	FINAL AMENDED BUDGET	ACTUAL	FINAL TO ACTUAL
REVENUE				
Recreation	$	$ 3,572	$ 1,006	$ (2,566)
Pool	47,138	12,850	13,798	948
Sweet corn days	500		100	100
Basketball tournament	3,500	500		(500)
Youth golf		250	250	
Summer ball	2,155	3,305	2,370	(935)
TOTAL REVENUES	$ 53,293	$ 20,477	$ 17,524	$ (2,953)
EXPENDITURES				
Pool	$ 45,296	$ 47,638	$ 38,559	$ 9,079
Sweet corn days	500	2,223	2,300	(77)
Basketball tournament	500	188	188	
Summer ball	2,650	2,970	3,396	(426)
TOTAL EXPENDITURES	$ 48,946	$ 53,019	$ 44,443	$ 8,576
REVENUES OVER EXPENDITURES	$ 4,347	$ (32,542)	$ (26,919)	$ 5,623
OTHER FINANCING SOURCES (USES)				
Operating transfers in	$	$ 38,237	$ 31,402	$ (6,835)
Operating transfers (out)	(2,342)	(1,200)	(200)	1,000
TOTAL OTHER FINANCING SOURCES (USES)	$ (2,342)	$ 37,037	$ 31,202	$ (5,835)
NET CHANGE IN FUND BALANCE	$ 2,005	$ 4,495	$ 4,283	$ (212)
FUND BALANCE - BEGINNING OF YEAR	(3,072)	(3,072)	(3,072)	
FUND BALANCE - END OF YEAR	$ (1,067)	$ 1,423	$ 1,211	$ (212)

CITY OF LITCHFIELD, MICHIGAN

REQUIRED SUPPLEMENTAL INFORMATION

RETIREMENT SYSTEM REQUIRED SUPPLEMENTARY INFORMATION
ANALYSIS OF FUNDING PROGRESS

MUNICIPAL EMPLOYEES' RETIREMENT SYSTEM

JUNE 30, 2007

SCHEDULE OF FUNDING PROGRESS

ACTUARIAL VALUATION DATE	(a) ACTUARIAL VALUE OF ASSETS	(b) ACTUARIAL ACCRUED LIABILITY (AAL) ENTRY AGE	(b-a) UNFUNDED AAL (UAAL)	FUNDED RATIO TOTAL	(c) COVERED PAYROLL	((b-a)/c) UAAL AS A PERCENTAGE OF COVERED PAYROLL
12/31/05	$310,905	$506,585	$195,680	61%	$369,273	53%
12/31/06	393,684	544,991	151,307	72	423,456	36

Analysis of the dollar amounts of net assets available for benefits, actuarial accrued liability (AAL) and unfunded "AAL" in isolation can be misleading. Expressing the net assets available for benefits as a percentage of the "AAL" provides one indication of the retirement system's funding status on a continuous basis. Analysis of this percentage over time indicates whether the system is becoming financially stronger or weaker. Generally, the greater this percentage, the stronger the plan. Trends in unfunded "AAL" and annual covered payroll are both affected by inflation. Expressing the unfunded "AAL" as a percentage of annual covered payroll approximately adjusts for the effects of inflation and aids analysis of the retirement system's progress made in accumulating sufficient assets to pay benefits when due. Generally, the smaller this percentage, the stronger the plan.

OTHER REPORTS

Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

GAO *GOVERNMENT AUDITING STANDARDS* REPORT

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

To the City Council
City of Litchfield
Litchfield, Michigan

We have audited the financial statements of the governmental activities, the business-type activities, the discretely presented component units, each major fund, and the aggregate remaining fund information of City of Litchfield, Michigan, as of and for the year ended June 30, 2007, which collectively comprise the City of Litchfield's basic financial statements and have issued our report thereon dated October 15, 2007. The opinion of the City's governmental activities financial statements was qualified because the City included in those statements its investment in Litchfield Fire Department, a joint venture between the City of Litchfield and Litchfield Township, based on financial statements that have not been audited, and we were not engaged to audit the joint venture financial statements as part of our audit of the City's basic financial statements. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Litchfield's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City'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 City'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 City's financial statements that is more than inconsequential will not be prevented or detected by the City'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 statement will not be prevented or detected by the City's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

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

This report is intended for the information of the City Council, management and the State of Michigan. However, this report is a matter of public records and its distribution is not limited.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants

Hillsdale, Michigan
October 15, 2007

Osbourne, March, Condon & Co., P.C.

Certified Public Accountants

184 West Carleton Road

Hillsdale, Michigan 49242

Telephone: 517/439-9331

FAX: 517/439-1894

October 15, 2007

To the City Council
City of Litchfield
Litchfield, Michigan 49252

We have audited the financial statements of City of Litchfield for the year ended June 30, 2007, and have issued our report thereon dated, October 15, 2007. Professional standards require that we provide you with the following information related to our audit.

1. Significant Accounting Policies

   Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by City of Litchfield are described in Note 1 to the financial statements. We noted no transactions entered into by City of Litchfield during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

2. Accounting Estimates

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

3. Audit Adjustments

   For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on City of Litchfield's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the City of Litchfield, either individually or in the aggregate, indicate matters that could have a significant effect on the City of Litchfield's financial reporting process.

4. Disagreements with Management

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

5. Consultations with Other Independent Accountants

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

6. Issues Discussed Prior to Retention of Independent Auditors

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

7. Difficulties Encountered in Performing the Audit

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

This information is intended solely for the use of the City of Litchfield. It is not intended to be and should not be used by anyone other than these specified parties.

Osbourne, March, Condon & Co P.C.

Certified Public Accountants