

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 checked="" type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other				Local Unit Name Charter Township of China		County St. Clair County	
Fiscal Year End December 31, 2007		Opinion Date May 12, 2008		Date Audit Report Submitted to State May 27, 2008			

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 checked="" type="checkbox"/>		
The letter of Comments and Recommendations		<input checked="" type="checkbox"/>	Audit Communication Letter	
Other (Describe) Internal Control		<input checked="" type="checkbox"/>		
Certified Public Accountant (Firm Name) Stewart, Beauvais & Whipple P.C.			Telephone Number (810) 984-3829	
Street Address 1979 Holland Avenue			City Port Huron	State MI
			Zip 48060	
Authorizing CPA Signature 		Printed Name Larry J. Allen		License Number 1101008117

CHARTER TOWNSHIP OF CHINA, MICHIGAN

**ANNUAL FINANCIAL REPORT
with Supplementary Information**

**FOR THE YEAR ENDED
DECEMBER 31, 2007**

Stewart,
Beauvais
& Whipple P.C.

CERTIFIED PUBLIC ACCOUNTANTS



CHARTER TOWNSHIP OF CHINA, MICHIGAN
St. Clair County, Michigan

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INDEPENDENT AUDITOR'S REPORT

To the Members of the Board of the
Charter Township of China
St. Clair County, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China, Michigan, as of and for the year ended December 31, 2007 which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Charter Township of China'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. 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 consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of China's internal control over financial reporting. Accordingly, we express no such opinion. 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China, Michigan, as of December 31, 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.

The Management's Discussion and Analysis on pages 3 through 7, and schedules of budgetary comparisons on pages 32 through 34 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 methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Charter Township of China's basic financial statements. The combining and individual fund financial statements on pages 35 through 39 are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual fund financial statements have been subjected to the auditing procedure 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.



Certified Public Accountants

May 12, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of China's 2007 annual report is presented in conformity with the requirements of GASB 34. This annual report consists of four parts – management's discussion and analysis, the basic financial statements, required supplementary information, and other supplemental information, which presents combining statements for nonmajor governmental funds. The basic financial statements include two kinds of statements that present different views of the Township. The first two statements are government-wide financial statements that provide both long-term and short-term information about the Township's overall financial status. The remaining statements are fund financial statements that focus on individual parts of the Township's government, reporting the Township's operations in more detail than the government-wide statements.

Government-wide Financial Statements

The government-wide statements report information about the Township as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

The two government-wide statements report the Township's net assets and how they have changed. Net assets, defined as the difference between the Township's assets and liabilities, are one way to measure the Township's financial health or position.

The government-wide financial statements of the Township are divided into two categories:

Governmental activities – most of the Township's basic services are included here, such as the police, fire, public works, and general administration. Property taxes, state-shared revenue, and charges for services, provide most of the funding.

Business-type activities – the Township charges fees to customers to help it cover the costs of certain services it provides. The Township's water and sewer operations are treated as business-type activities.

Fund Financial Statements

The fund financial statements provide more detailed information about the Township's most significant funds; not the Township as a whole. Funds are accounting devices that the Township uses to keep track of specific sources of funding and spending for particular purposes. Some funds are required by State law and/or by bond covenants. The Township Board establishes other funds to control and manage money for particular purposes.

The Township has three kinds of funds:

Governmental Funds - Most of the Township's basic services are included in governmental funds, which focus on how cash and other financial assets can readily be converted to cash flow in and out, and the balances left at year end that are available for spending. The governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the Township's programs.

Proprietary Funds – are used to report services for which the Township charges customers a fee for those services. The Township has two enterprise funds, the Water and Sewer Funds.

Fiduciary Funds – The Township is responsible for ensuring that the assets reported in these funds are used for their intended purposes. All of the Township’s fiduciary activities are reported in a separate statement of assets and liabilities. We exclude these activities from the Township’s government-wide financial statements because the Township cannot use these assets to finance its operations.

FINANCIAL OVERVIEW (Government-wide financial analysis)

The Township has combined total net assets of \$10,023,438. This is an increase of \$523,107 from 2006. Government-type activities comprise \$5,902,735, and business-type activities make up \$4,120,703 of the total net assets. In a condensed format, the table below shows net assets as of December 31, 2007 and 2006.

In Thousands

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Assets				
Current assets	\$ 5,021	\$ 4,441	\$ 1,108	\$ 1,031
Restricted assets	-	-	746	798
Other assets	-	-	7	7
Capital assets	<u>2,098</u>	<u>2,177</u>	<u>4,602</u>	<u>4,724</u>
Total assets	<u>7,119</u>	<u>6,618</u>	<u>6,463</u>	<u>6,560</u>
Liabilities				
Current liabilities	1,214	1,180	37	67
Liabilities payable from				
Restricted assets	-	-	140	138
Long-term liabilities	<u>2</u>	<u>-</u>	<u>2,165</u>	<u>2,293</u>
Total liabilities	<u>1,216</u>	<u>1,180</u>	<u>2,342</u>	<u>2,498</u>
Net Assets				
Invested in capital assets –				
Net of related debt	2,098	2,177	2,435	2,417
Restricted	1,821	1,415	606	660
Unrestricted	<u>1,984</u>	<u>1,846</u>	<u>1,080</u>	<u>985</u>
Total net assets	<u>\$ 5,903</u>	<u>\$ 5,438</u>	<u>\$ 4,121</u>	<u>\$ 4,062</u>

The Township governmental activities experienced a net change in assets of \$464,420.

The following table shows the changes in net assets for 2007 and 2006.

In Thousands

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Revenue				
Program revenue:				
Charges for services	\$ 53	\$ 48	\$ 273	\$ 250
Operating grants and contributions	114	111	-	-
Capital grants and contributions	-	10	2	82
General revenue:				
Property taxes	977	954	139	171
Unrestricted grants	229	228	-	-
Unrestricted investment earnings	224	206	79	74
Total Revenue	<u>1,597</u>	<u>1,557</u>	<u>493</u>	<u>577</u>
Program Expenses				
General government	591	732	-	-
Public safety	277	274	-	-
Public works	194	335	-	-
Recreation and cultural	71	76	-	-
Water and sewer	-	-	434	404
Total Program Expenses	<u>1,133</u>	<u>1,417</u>	<u>434</u>	<u>404</u>
Changes in net assets	<u>\$ 464</u>	<u>\$ 140</u>	<u>\$ 59</u>	<u>\$ 173</u>

Governmental Activities

Revenues for governmental activities totaled \$1,597,740 and \$1,557,206 for 2007 and 2006, respectively. Of this amount, \$976,854 and \$953,573 was received from taxes for 2007 and 2006, respectively.

Expenses decreased by \$283,532 from 2006 to 2007, mainly due to decreased legal and professional fees and road maintenance projects.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. Total revenues for 2007 and 2006 were \$492,815 and \$576,610. The \$83,795 decrease is primarily due to a capital contribution of \$82,012 in 2006, and only \$2,031 in 2007 for the construction of a sewer line. The tax revenue of \$138,755 for 2007 and \$170,913 for 2006 was to pay contracted debt for the construction of the Township's share of a water plant. The taxes levied decreases in proportion to the reduction of debt payment requirements.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Fund

The General fund ended 2007 with a fund balance of \$1,777,639, with \$27,322 reserved for prepaid expenditures, \$347,206 reserved for road improvements and maintenance, \$1,148,500 designated for a potential tax appeal, and the remaining balance of \$254,611 unreserved/undesignated. The general fund balance increased \$449,047 in 2007. The Township's other major governmental fund (Fire Fund) has revenues over expenditures of \$96,099 due to special assessment collections exceeding contract payments for fire protection and an increase in interest revenue.

The general fund had no significant amendments to the original budget. The Township was under budget by \$143,779 in the Public Works, Roads and Bikepaths category, due to a decrease in road maintenance requests.

The fire fund budget was not amended during the year, and had no significant variations between actual and budgeted amounts.

Business-type Activities

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$492,815 for 2007 and expenses were \$434,128 for an increase in net assets of \$58,687.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$6,698,989 invested in capital assets for its governmental and business-type activities (net of accumulated depreciation) as of December 31, 2007. The investment in capital assets includes land, land improvements, shared road system, buildings and improvements, equipment, water plant and lines, and sewer lines. During the year the Township added \$21,164 of capital assets, \$19,133 in the governmental activities and \$2,031 in the business-type activities. The governmental activities' additions were for a new backstop and replacement of the Township septic system.

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Land	\$ 479,788	\$ 479,788	\$ 8,584	\$ 8,584
Shared road system	663,287	663,287	-	-
Land improvements	1,167,380	1,167,380	-	-
Building and Improvements	148,831	136,448	-	-
Equipment	52,819	46,069	-	-
Water and sewer	-	-	6,271,485	6,269,454
	<u>2,512,105</u>	<u>2,492,972</u>	<u>6,280,069</u>	<u>6,278,038</u>
Accumulated depreciation	(414,428)	(315,393)	(1,678,757)	(1,553,615)
	<u>\$ 2,097,677</u>	<u>\$ 2,177,579</u>	<u>\$ 4,601,312</u>	<u>\$ 4,724,423</u>

Additional information on the Township's capital assets can be found in Note 6 to the financial statements.

Long-Term Debt

At December 31, 2007, the Township had \$2,294,931 in long-term debt compared to \$2,429,984 at December 31, 2006, a decrease of \$135,053 from the prior year. The following table shows the long-term debt at December 31, 2007 and 2006:

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Environmental Quality Bond Contract Payable	\$ -	\$ -	\$ 1,907,928	\$ 2,029,984
Special Assessment Bonds	-	-	385,000	400,000
Accumulated Vacation and Sick	<u>2,003</u>	<u>-</u>	<u>-</u>	<u>-</u>
	<u>\$ 2,003</u>	<u>\$ -</u>	<u>\$ 2,292,928</u>	<u>\$ 2,429,984</u>

Additional information on the Township's long-term liabilities can be found in Note 10 to the financial statements.

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For 2008, the Township Board adopted a general fund budget with estimated revenues of \$2,718,367 and expenditures of \$2,570,885, and will result in an addition of \$147,482 to fund balance.

The 2008 budget continues to set aside money for the possible settlement of a tax appeal as described in Note 15 to the financial statements. The Township continues to be conservative with spending because of this pending settlement.

CONTACTING THE TOWNSHIP

This financial report is designed to provide a general overview of the Township's finances to our residents and other interested parties in understanding the Township's financial condition. If you have questions about this report or need additional financial information, please contact the Township at (810) 765-1145.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF CHINA

St. Clair County, Michigan

**STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

	Primary Government		
	Governmental Activities	Business Type Activities	Total
ASSETS:			
Cash and cash equivalents	\$ 3,775,754	\$ 966,894	\$ 4,742,648
Receivables (net of allowance)	1,115,893	118,031	1,233,924
Prepaid expenses	74,058	176	74,234
Internal balances	(23,149)	23,149	-
Due from other governmental units	78,703	-	78,703
Restricted Assets -			
Cash and cash equivalents	-	368,500	368,500
Receivables	-	377,654	377,654
Capital assets (net of accumulated depreciation)			
Assets not being depreciated	479,788	8,584	488,372
Assets being depreciated	1,617,889	4,592,728	6,210,617
Other Assets	-	7,100	7,100
Total Assets	<u>7,118,936</u>	<u>6,462,816</u>	<u>13,581,752</u>
LIABILITIES:			
Payables and accrued liabilities	29,585	318	29,903
Due to other governmental units	80,014	33,244	113,258
Accrued interest	-	1,315	1,315
Advances and deposits	2,747	-	2,747
Unearned revenue	1,101,852	1,875	1,103,727
Liabilities Payable From Restricted Assets -			
Bonds payable (current)	-	127,420	127,420
Accrued interest	-	12,433	12,433
Non-current liabilities -			
Due within one year	2,003	14,454	16,457
Due in more than one year	-	2,151,054	2,151,054
Total Liabilities	<u>1,216,201</u>	<u>2,342,113</u>	<u>3,558,314</u>
NET ASSETS:			
Investment in capital assets, net of related liabilities	2,097,677	2,434,489	4,532,166
Restricted -			
Fire Operations	1,474,116	-	1,474,116
Road Maintenance and Improvements	347,206	-	347,206
Water Plant Debt	-	606,301	606,301
Unrestricted	1,983,736	1,079,913	3,063,649
Total Net Assets	<u>\$ 5,902,735</u>	<u>\$ 4,120,703</u>	<u>\$ 10,023,438</u>

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue and Change in Net Assets		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental activities:							
General Government	\$ 590,646	\$ 24,595	\$ 1,791	\$ -	\$(564,260)	\$ -	\$(564,260)
Public Safety	277,568	28,719	90,497	-	(158,352)	-	(158,352)
Public Works	194,424	-	7,673	-	(186,751)	-	(186,751)
Recreation and Culture	70,682	-	13,914	-	(56,768)	-	(56,768)
Total governmental activities	<u>1,133,320</u>	<u>53,314</u>	<u>113,875</u>	<u>-</u>	<u>(966,131)</u>	<u>-</u>	<u>(966,131)</u>
Business type activities:							
Water/Sewer	<u>434,128</u>	<u>272,977</u>	<u>-</u>	<u>2,031</u>	<u>-</u>	<u>(159,120)</u>	<u>(159,120)</u>
Total	<u>1,567,448</u>	<u>326,291</u>	<u>113,875</u>	<u>2,031</u>	<u>(966,131)</u>	<u>(159,120)</u>	<u>(1,125,251)</u>
General revenues:							
Property taxes					976,854	138,755	1,115,609
Grants and contributions not restricted to specific programs					229,792	-	229,792
Unrestricted investment income					223,905	79,052	302,957
Total general revenues and transfers					<u>1,430,551</u>	<u>217,807</u>	<u>1,648,358</u>
Change in net assets					464,420	58,687	523,107
Net assets at beginning of year					<u>5,438,315</u>	<u>4,062,016</u>	<u>9,500,331</u>
Net assets at end of year					<u>\$ 5,902,735</u>	<u>\$ 4,120,703</u>	<u>\$ 10,023,438</u>

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Fire	Other Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	\$ 1,700,503	\$ 1,521,742	\$ 553,509	\$ 3,775,754
Receivables -				
Property taxes	1,009,182	-	-	1,009,182
Special assessments	-	92,670	-	92,670
Other	5,379	7,597	1,065	14,041
Due from other governmental units	78,703	-	-	78,703
Due from other funds	82,891	-	1,800	84,691
Prepaid expenditures	27,322	46,636	100	74,058
Total Assets	<u>\$ 2,903,980</u>	<u>\$ 1,668,645</u>	<u>\$ 556,474</u>	<u>\$ 5,129,099</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable	\$ 24,886	\$ -	\$ 498	\$ 25,384
Accrued liabilities	3,531	-	670	4,201
Advances and deposits	2,747	-	-	2,747
Due to other governmental units - local	61,046	18,968	-	80,014
Due to other funds	24,949	82,891	-	107,840
Deferred revenue	1,009,182	92,670	-	1,101,852
Total Liabilities	1,126,341	194,529	1,168	1,322,038
Fund Balances:				
Reserved -				
Prepaid expenditures	27,322	46,636	100	74,058
Road improvements and maintenance	347,206	-	-	347,206
Unreserved -				
Designated	1,148,500	-	500,000	1,648,500
Undesignated -				
General Fund	254,611	-	-	254,611
Special Revenue Funds	-	1,427,480	55,206	1,482,686
Total Fund Balances	1,777,639	1,474,116	555,306	3,807,061
Total Liabilities and Fund Balances	<u>\$ 2,903,980</u>	<u>\$ 1,668,645</u>	<u>\$ 556,474</u>	<u>\$ 5,129,099</u>

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

**RECONCILIATION OF FUND BALANCES ON THE BALANCE SHEET FOR
GOVERNMENTAL FUNDS TO NET ASSETS OF GOVERNMENTAL ACTIVITIES
ON THE STATEMENT OF NET ASSETS
DECEMBER 31, 2007**

Fund Balances - total governmental funds	\$ 3,807,061
Amounts reported for governmental activities in the statement of net assets are different because:	
Accrued compensated absences are not due and payable in the current period and therefore are not reported in the funds.	(2,003)
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets	2,512,105
Accumulated depreciation	<u>(414,428)</u>
Net Assets of governmental activities	<u>\$ 5,902,735</u>

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	General	Fire	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 976,854	\$ -	\$ -	\$ 976,854
Licenses and permits	839	-	28,719	29,558
Intergovernmental -				
Federal/State	239,256	-	-	239,256
Local	13,914	-	-	13,914
Charges for services	5,517	90,497	-	96,014
Interest and rent	113,160	85,368	25,377	223,905
Other	18,239	-	-	18,239
Total Revenues	1,367,779	175,865	54,096	1,597,740
Expenditures:				
Current -				
General Government	570,739	-	200	570,939
Public Safety	150,804	79,766	46,795	277,365
Public Works	161,260	-	-	161,260
Recreation and Cultural	17,853	-	-	17,853
Total Expenditures	900,656	79,766	46,995	1,027,417
Revenues over expenditures	467,123	96,099	7,101	570,323
Other Financing Sources (Uses):				
Transfers In	-	-	18,176	18,176
Transfers Out	(18,176)	-	-	(18,176)
	(18,176)	-	18,176	-
Net Change in Fund Balances	448,947	96,099	25,277	570,323
Fund Balances at beginning of year	1,328,692	1,378,017	530,029	3,236,738
Fund Balances at end of year	\$ 1,777,639	\$ 1,474,116	\$ 555,306	\$ 3,807,061

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES
AND CHANGE IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES
DECEMBER 31, 2007**

Net change in fund balances - total governmental funds	\$ 570,323
Change in prepaid expenses recorded in the funds on the purchase method	(23,998)
Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds.	
Increase in accrued compensated absences	(2,003)
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.	
Capital outlay	19,133
Depreciation expense	<u>(99,035)</u>
Change in net assets of governmental activities	<u><u>\$ 464,420</u></u>

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007

ASSETS	Water	Sewer	Total
Current Assets:			
Cash and cash equivalents	\$ 108,055	\$ 858,839	\$ 966,894
Receivables -			
Accounts	13,030	103,946	116,976
Interest	-	1,055	1,055
Due from other funds	23,149	-	23,149
Prepaid expenses	-	176	176
Restricted Assets-			
Cash and cash equivalents	368,500	-	368,500
Property taxes receivable	138,755	-	138,755
Special assessment receivable	238,899	-	238,899
Total Current Assets	890,388	964,016	1,854,404
Capital Assets			
Property, plant and equipment net of accumulated depreciation	3,048,531	1,552,781	4,601,312
Other Assets:			
Deposit with authority	5,000	2,100	7,100
Total Assets	3,943,919	2,518,897	6,462,816
LIABILITIES AND FUND EQUITY			
Current Liabilities:			
Accounts Payable	250	68	318
Accrued interest	1,315	-	1,315
Due to other governmental units - local	17,315	15,929	33,244
Unearned revenue - tap in fees	1,875	-	1,875
Current portion -			
Contract payable - Bonds	14,454	-	14,454
Liabilities payable from restricted assets-			
Accrued interest	12,433	-	12,433
Current portion of contracts payable - bonds	127,420	-	127,420
	175,062	15,997	191,059
Long-Term Liabilities (less current portions):			
Contracts payable - Bonds, net of current portion	2,151,054	-	2,151,054
Total Liabilities	2,326,116	15,997	2,342,113
Net Assets:			
Invested in Capital Assets, net of related liabilities	881,708	1,552,781	2,434,489
Reserved- debt service	606,301	-	606,301
Unreserved	129,794	950,119	1,079,913
Total Net Assets	\$ 1,617,803	\$ 2,502,900	\$ 4,120,703

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Water	Sewer	Total
Operating Revenues:			
User fees	\$ 105,079	\$ 151,894	\$ 256,973
Connection fees	8,926	7,078	16,004
Total Operating Revenues	114,005	158,972	272,977
Operating Expenses:			
Professional fees	2,160	2,160	4,320
Purchased water	94,489	-	94,489
Sewer usage	-	98,224	98,224
Repairs and maintenance	16,351	12,358	28,709
Meter reading and maintenance	9,184	-	9,184
Utilities	327	1,662	1,989
Other	686	222	908
Depreciation	72,250	52,892	125,142
Total Operating Expenses	195,447	167,518	362,965
Operating Loss	(81,442)	(8,546)	(89,988)
Non-Operating Revenues (Expenses):			
Interest earned	39,436	39,616	79,052
Interest on debt	(71,163)	-	(71,163)
Property taxes	138,755	-	138,755
Total Non Operating Revenues (Expenses)	107,028	39,616	146,644
Net Income Before Capital Contributions	25,586	31,070	56,656
Capital Contributions	-	2,031	2,031
Change in Net Assets	25,586	33,101	58,687
Net Assets at beginning of year	1,592,217	2,469,799	4,062,016
Net Assets at end of year	\$ 1,617,803	\$ 2,502,900	\$ 4,120,703

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Water	Sewer	Total
Cash Flows From Operating Activities:			
Receipts from customers	\$ 118,309	\$ 181,414	\$ 299,723
Payments to suppliers	(120,740)	(117,041)	(237,781)
Net Cash Provided (Used) by Operating Activities	(2,431)	64,373	61,942
Cash Flows From Non-Capital Financing Activities:			
Change in due to/from other funds	8,482	-	8,482
Cash Flows From Capital and Related Financing Activities:			
Acquisition and construction of capital assets	-	(19,782)	(19,782)
Capital contributions	-	2,031	2,031
Interest collected on special assessments	17,074	-	17,074
Collection of special assessment principal	25,951	-	25,951
Principal paid on long-term debt	(137,056)	-	(137,056)
Interest paid on long-term debt	(72,239)	-	(72,239)
Property taxes received	176,953	-	176,953
Net Cash Provided (Used) by Capital and Related Financing Activities	10,683	(17,751)	(7,068)
Cash Flows From Investing Activities:			
Interest received	25,549	39,596	65,145
Sale of Investments	87,046	-	87,046
Net Cash Provided by Investing Activities	112,595	39,596	152,191
Net Increase in cash and cash equivalents	129,329	86,218	215,547
Cash and cash equivalents at beginning of year	347,226	772,621	1,119,847
Cash and cash equivalents at end of year	\$ 476,555	\$ 858,839	\$ 1,335,394
Reconciliation of Operating Loss to net cash provided (used) by operating activities:			
Operating Loss	\$(81,442)	\$(8,546)	\$(89,988)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:			
Depreciation expense	72,250	52,892	125,142
Change in assets and liabilities -			
Receivables	4,304	22,442	26,746
Prepaid expenses	-	(176)	(176)
Accounts and other payables	2,457	(2,239)	218
Net Cash Provided (Used) by Operating Activities	\$(2,431)	\$ 64,373	\$ 61,942

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS
DECEMBER 31, 2006

	<u>Agency Funds</u>
ASSETS:	
Cash and cash equivalents	\$ 418,370
LIABILITIES:	
Due to Individuals	\$ 16,900
Undistributed taxes	401,470
Total Liabilities	<u>\$ 418,370</u>

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

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:

A. Reporting Entity -

The Charter Township of China, Michigan, a Municipal Corporation, was organized as a Township on March 17, 1840, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on October 2, 1989, under Public Act 359, the Charter Township Act. The Township is one of twenty-three Townships in St. Clair County and covers an area of approximately 32 square miles. The Township operates under an elected Township Board which consists of a Supervisor, Clerk, Treasurer, and four (4) Trustees, and provides services to its more than 3,200 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

B. Government-wide and fund financial statements -

The government-wide financial statements (i.e., the statement of net assets and the statement of changes in net assets) report information on all the non-fiduciary activities of the primary government and its component unit. Governmental activities, which normally are 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.

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. Taxes and other items not included among program revenues are reported as general revenues.

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.

C. 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 and fiduciary fund financial statements. Revenues are 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 revenues in the year they are intended to finance (the December 2006 levy in 2007). Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Agency funds, a type of fiduciary fund, are unlike all other types of funds, reporting only assets and liabilities. Therefore, agency funds cannot be said to have a measurement focus. They do, however, use the accrual basis of accounting to recognize receivables and payables.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – (cont'd):

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are 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, as well as expenditures related to compensated absences and claims and judgment are recorded only when payment is due.

State shared revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and therefore have been recognized as revenues of the current fiscal period. Property taxes, which are levied and collected in December of each year, are budgeted and treated as revenue in the subsequent year. All other revenue items are considered to be measurable and available only when cash is received by the Township.

The Township reports the following major governmental funds:

General Fund – is the Township’s primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Fire Fund – is a special revenue fund used to account for tax revenue restricted for fire service of the Township.

The Township reports the following major proprietary funds:

Water Fund – is used to account for the treatment and distribution of water to residential and commercial users.

Sewer Fund – is used to account for sanitary sewer services provided to the residential and commercial users.

Additionally, the Township reports the following fund types:

Special Revenue Funds – are used to account for the proceeds of specific revenue sources requiring separate accounting because of legal or regulation provisions or administrative actions.

Agency Funds – are used to account for assets held by the Township as an agent for other governments and other funds.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Private sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the option of following subsequent private-sector guidance for this business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements.

Amounts reported as *program revenues* 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 revenues rather than as program revenues. Likewise, general revenues include all taxes.

Proprietary funds distinguish operating revenue and expenses for nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary funds principle on-going operations. The principle operating revenues of the Enterprise Funds is charged to customers for sales and services, administrative expense, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the Township's policy to use restricted resources first, then unrestricted resources, as they are needed.

D. Assets, Liabilities and Net Assets or Equity –

Deposits and Investments –

The Township's cash and cash equivalents are considered to be cash on hand, demand deposits and certificates of deposit with original maturities of three months or less from the date of acquisition.

Investments are stated at fair value, which is determined as follows: (a) short-term investments are reported at cost, which approximates fair value; (b) securities traded on national or international exchanges are valued at the last reported sales price at current exchange rates; (c) investments that do not have established market values are reported at estimated fair value; and (d) cash deposits are reported at carrying amount which reasonable approximates fair value.

State statues authorize the Township to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments (except those with a fluctuating per share value).

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Receivables and Payables –

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either “due to/from other funds” (i.e. the current portion of interfund loans) or “advances to/from other funds” (i.e. the non-current portion of interfund loans). All other outstanding balances between funds are reported as “due to/from other funds.” Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as “internal balances”.

Advances between funds, as reported in the fund financial statements, are offset by a fund balance reserve account in applicable governmental funds to indicate that they are not available for appropriation and are not expendable available financial resources.

All trade and property tax receivables are shown net of an allowance for uncollectible.

Inventories and Prepaid Items –

All inventories are valued at cost using the first in/first out (FIFO) method. Inventories of governmental funds are recorded as expenditures when purchased.

Certain payments to vendors reflect costs applicable to further accounting periods and are recorded as prepaid items in the statement of net assets.

Property Tax Calendar –

The Township’s property tax is levied each December 1 on the taxable value of property located in the Township as of the preceding December 31. Property taxes are recognized as revenues in the year they were intended to finance (the 2006 levy is recognized in 2007 for the general fund).

The Township also collects taxes for various other municipalities and school districts. The collection and remittance of these taxes are accounted for in the Tax Collection Fund.

Capital Assets –

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g. shared roads and bridge improvements, sidewalks, bike paths and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. Capital assets are defined by the Township as assets with an initial, individual cost of more than \$2,000 and an estimated useful life in excess of a 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. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities is included as part of the capitalized value of the assets constructed.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

As permitted by GASB Statement No. 34, the Township has elected not to report governmental infrastructure assets (principally shared roads and bridge improvements) acquired prior to January 1, 2004.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

	<u>Primary Government</u>
Land Improvements	10-25
Buildings and improvements	3-40
Utility systems	50
Equipment	5-25
Shared street improvements	20

Compensated Absences –

In accordance with contracts negotiated with the various employee groups of the Township, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contracts.

Long-Term Obligations –

In the government-wide financial statements, and 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 statements of net assets. Bond premiums and discounts, as well as issuance costs, if significant, 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 on debt issuances are reported as other financial uses. Issuance costs, whether or not withheld from the actual debt proceeds received, 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.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

Estimates –

In preparing financial statements in conformity with accounting principles generally accepted in the United States of America, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY:

Budgetary Compliance –

The Township Supervisor prepares and submits the proposed operating budgets for the year commencing January 1. The budgets include proposed expenditures and resources to finance them.

Prior to December 31, the proposed budget is presented to the Township Board. The Board holds a public hearing and may add to, subtract from, or change appropriations. The budget is then legally enacted through the passage of a Township Resolution. After the budget is adopted, all amendments must be approved by the Township Board.

The Township's approved budgets were adopted at the function level for the General Fund and Special Revenue Funds. The function level is the legal level requiring approval by the Board for amendments; however, for control purposes, all the budgets are maintained at the account level.

The Township does not employ encumbrance accounting as an extension of formal budgetary integration. All annual appropriations lapse at year-end.

Michigan Public Act 621 of 1978, Section 18, or as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated at the legally adopted level. During the year ended December 31, 2007, the Township incurred an expenditure for transfers out in the General Fund, which were in excess of the amount appropriated as follows:

<u>Function/Activity</u>	<u>Total Appropriations</u>	<u>Amount Expended</u>	<u>Budget Variance</u>
General Fund –			
Transfers Out	\$ -	\$ 18,176	\$ 18,176

Also, the Charter Township adopted a budget for the Building Inspection Fund that projected a negative fund balance, which is not allowed under Michigan Public Act 621 of 1978, as amended. However, actual activity did not result in a negative fund balance.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS:

As of December 31, 2007, the carrying amount of the deposits and investments is as follows:

	<u>Primary Government</u>	<u>Fiduciary Funds</u>	<u>Total</u>
Deposits with financial institutions–			
Checking	\$ 753,800	\$ 418,370	\$ 1,172,170
Certificates of deposit	<u>4,357,148</u>	-	<u>4,357,148</u>
Cash on hand –	5,110,948	418,370	5,529,318
Petty cash	<u>200</u>	-	<u>200</u>
	<u>\$ 5,111,148</u>	<u>\$ 418,370</u>	<u>\$ 5,529,518</u>

All amount are reported as cash and cash equivalents.

Deposits –

The Township’s investment policy and Act 217 PA 1982, as amended, authorizes the Township to deposit in certificates of deposit, savings accounts, depository accounts or depository receipts of a state or nationally chartered bank or a state or federally chartered savings and loan association, savings bank or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of this State or United States, but only if the bank, savings and loan association, savings bank or credit union is eligible to be a depository of surplus funds belonging to the State under Section 5 or 6 of Act 105 of the Public Acts of 1855, as amended, being section 21.145 and 21.146 of the Michigan Compiled Laws.

Custodial Credit Risk - Custodial credit risk for deposits is the risk that in the event of a bank failure, the Township’s deposits may not be returned. As an indication of the level of custodial credit risk assumed by the Township as of December 31, 2007, the book value of the Township’s deposits was \$5,529,318 with a corresponding bank balance of \$5,296,469, of which \$400,000 was FDIC insured with the remaining \$4,896,469 uninsured and uncollateralized. The Township investment policy does not address custodial credit risk.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured institution for savings and demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 4 - RECEIVABLES:

Receivables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
Property Taxes	\$ 1,009,182	\$ 138,755
Special assessments	92,670	238,899
Interest and accounts	14,041	118,031
	\$ 1,115,893	\$ 495,685

NOTE 5 - INTERFUND RECEIVABLES AND PAYABLES:

The composition of interfund balances as of December 31, 2007:

Due To/From Other Funds -

Receivable Fund	Payable Fund	Amount
General Fund	Fire Fund	\$ 82,891
Non Major Governmental - Public Improvement Fund	General Fund	1,800
Water Fund	General Fund	23,149
Total		\$ 107,840

The amounts due between funds represent (1) amounts owed for expenditures paid out of funds where the expenditure is recorded in a different fund and (2) amounts owed for revenues held in one fund that belong to another fund.

Transfers From/To Other Funds -

Transfers In	Transfers Out	Amount
Building Inspection Fund	General Fund	\$ 18,176

The above transfer represents an appropriation to cover the operations of the Building Inspections Fund.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 6 - CAPITAL ASSETS:

Primary Government

Capital asset activity of the primary government for the year ended December 31, 2007 was as follows:

	<u>Jan. 1, 2007</u> <u>Balance</u>	<u>Additions</u>	<u>Deletions/ Adjustments</u>	<u>Dec. 31, 2007</u> <u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 479,788	\$ -	\$ -	\$ 479,788
Capital assets, being depreciated:				
Land improvements	1,167,380	-	-	1,167,380
Shared road system	663,287	-	-	663,287
Buildings and improvements	136,448	12,383	-	148,831
Equipment	46,069	6,750	-	52,819
Total capital assets being depreciated	<u>2,013,184</u>	<u>19,133</u>	<u>-</u>	<u>2,032,317</u>
Less accumulated depreciation	(315,393)	(99,035)	-	(414,428)
Total capital assets being depreciated, net	<u>1,697,791</u>	<u>(79,902)</u>	<u>-</u>	<u>1,617,889</u>
Governmental activities capital assets, net	<u>\$ 2,177,579</u>	<u>\$(79,902)</u>	<u>\$ -</u>	<u>\$ 2,097,677</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 8,584	\$ -	\$ -	\$ 8,584
Capital assets, being depreciated:				
Plant and Buildings	4,447,839	-	-	4,447,839
Mains and extensions	1,819,131	2,031	-	1,821,162
Equipment	2,484	-	-	2,484
Total capital assets being depreciated	<u>6,269,454</u>	<u>2,031</u>	<u>-</u>	<u>6,271,485</u>
Less accumulated depreciation	(1,553,615)	(125,142)	-	(1,678,757)
Total capital assets being depreciated, net	<u>4,715,839</u>	<u>(123,111)</u>	<u>-</u>	<u>4,592,728</u>
Business activities capital assets, net	<u>\$ 4,724,423</u>	<u>\$(123,111)</u>	<u>\$ -</u>	<u>\$ 4,601,312</u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 6 - CAPITAL ASSETS - (cont'd):

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

Governmental activities:	
General Government	\$ 6,292
Recreation and Culture	59,579
Public Works	<u>33,164</u>
Total depreciation expense-governmental activities	<u>\$ 99,035</u>
Business-type activities:	
Water and Sewer Operations	<u>\$ 125,142</u>

NOTE 7 - PROPERTY TAXES:

The Township property taxes are levied each December on the taxable valuation of the property located in the Township as of the preceding December 31. On December 1, the property tax attachment is an enforceable lien on property and is payable by the last day of the following February.

Although the Township's ad valorem tax is levied and collectible on December 1, it is the Township's policy to recognize in governmental fund types revenues from the current tax levy in the subsequent year when the proceeds of this levy are budgeted and made available for the financing of Township operations.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. A taxable value is established on which taxes are calculated. Real and personal property in the Township for the 2007 and 2006 levies have a taxable value of \$504,598,627 and \$488,469,456, respectively.

The property taxes levied at December 1, are accrued as current taxes receivable with the appropriate deferral and are budgeted as revenue in the subsequent year in the General Fund. The property taxes levied for the Water Plant Debt Fund (an Enterprise Fund) are accrued as current taxes receivable and recognized when the tax is levied (December 1) because the amount is used to pay current bond debt.

The millages for the Charter Township of China levied on December 1, 2007 and 2006 are 2.2750 mills and 2.3500 mills, respectively, which is allocated in the following manner:

	2007	2006
Township operating tax rate	1.0000 mills	1.0000 mills
Roads	1.0000	1.0000
Water Plant debt	<u>.2750</u>	<u>.3500</u>
	<u>2.2750 mills</u>	<u>2.3500 mills</u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - PAYABLES:

Payables in the governmental and business-type activities are as follows:

	Governmental Activities	Business-type Activities
Accounts Payable	\$ 25,384	\$ 318
Wage and fringe benefits	4,201	-
	\$ 29,585	\$ 318

NOTE 9 - UNEARNED REVENUE:

Governmental funds report deferred revenue in connection with receivables for revenues that are not considered to be available to liquidate liabilities of the current period. Governmental funds and business funds defer revenue recognition in connection with resources that have been received, but not earned or are received in advance of the period they are intended to finance. At the end of the current fiscal year the total deferred revenue reported in the governmental funds was unearned.

NOTE 10 - LONG-TERM LIABILITIES:

The following is a summary of changes in long-term liabilities (including current portions) for the year ended December 31, 2007:

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	Due Within One Year
<u>Governmental Activities:</u>					
Accumulated Vacation and Sick	\$ -	\$ 2,003	\$ -	\$ 2,003	\$ 2,003
<u>Business-type Activities:</u>					
Water Supply System					
Contract payable -					
1999 Special Assessment Bonds	400,000	-	15,000	385,000	15,000
2000 Department of Environmental Quality Bonds	2,029,984	-	122,056	1,907,928	126,874
	2,429,984	-	137,056	2,292,928	141,874
Total	\$ 2,429,984	\$ 2,003	\$ 137,056	\$ 2,294,931	\$ 143,877

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10 - LONG-TERM LIABILITIES - (cont'd):

Significant details regarding outstanding long-term liabilities (including current portions) are presented as follows:

Accumulated Vacation and Sick:

In accordance with contracts with various employees, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave. The balance at December 31, 2007 is \$2,003.

Water Supply System 1997 Special Assessment Bonds:

The Charter Township of China has one Water Supply System Special Assessment Bond issue outstanding at December 31, 2007, from which the proceeds were used for Water System construction. The Special Assessment Water Bonds, dated July 1, 1997, (original issue \$520,000) are due in annual installments ranging from \$15,000-\$20,000 through July 1, 2027, with interest ranging from 4.9% to 5.9%, payable semi-annually. The annual debt service requirements are as follows:

<u>Year Ending December 31,</u>	<u>Interest Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2008	5.10 %	\$ 15,000	\$ 21,508	\$ 36,508
2009	5.20	15,000	20,735	35,735
2010	5.30	15,000	19,948	34,948
2011	5.40	20,000	19,010	39,010
2012	5.50	20,000	17,920	37,920
2013-2017	5.60-5.75	100,000	72,705	172,705
2018-2022	5.75-5.85	100,000	43,940	143,940
2023-2027	5.85-5.90	<u>100,000</u>	<u>14,730</u>	<u>114,730</u>
		<u>\$ 385,000</u>	<u>\$ 230,496</u>	<u>\$ 615,496</u>

Water Supply System 1999 Department of Environmental Quality Bonds:

In order to finance the cost of constructing a new Water Filtration Plant, the Charter Township of China along with the Charter Township of East China through the St. Clair County Department of Public Works have participated in the Drinking Water Revolving Fund through which Department of Environmental Quality Bonds have been sold in the amount of \$7,500,000 (Issue A) and \$925,000 (Issue B).

The amount is apportioned between the Charter Township of China and East China in the ratio of 32.12% and 67.88%, respectively.

The Townships are required to make payments to the DPW to meet debt service requirements. It is the intention of the Charter Township of China to pay the obligation for Issue A to the County from property taxes, and Issue B from connection charges and operating revenues from the system. Upon final payment of the respective bond issues ownership of 32.12% of the system will revert to the Township.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10 - LONG-TERM LIABILITIES - (cont'd):

The balance of the Issue A and Issue B bonds payable at December 31, 2007, which represent the 32.12% apportioned to the Charter Township of China is \$1,697,542 and \$210,386 respectively. The annual requirements to pay the principal and interest on the Issues A and B Department of Environment Quality Bonds are as follows:

<u>Year Ending</u> <u>December 31,</u>	<u>Interest</u> <u>Rate</u>	<u>Principal</u>	<u>Interest</u>	<u>Total Due</u>
2008	2.5 %	\$ 126,874	\$ 46,112	\$ 172,986
2009	2.5	128,480	42,920	171,400
2010	2.5	131,692	39,668	171,360
2011	2.5	134,904	36,336	171,240
2012	2.5	139,722	32,902	172,624
2013-2017	2.5	748,396	109,890	858,286
2018-2020	2.5	<u>497,860</u>	<u>18,870</u>	<u>516,730</u>
		<u>\$ 1,907,928</u>	<u>\$ 326,698</u>	<u>\$ 2,234,626</u>

NOTE 11 - OPERATION OF SEWAGE DISPOSAL AND WATER SYSTEMS:

The Charter Townships of China and East China entered into an agreement with St. Clair County to acquire and construct a sewage disposal system and water system. The County has completed construction of the systems and is leasing them to the Townships. The Townships have contracted with the St. Clair River Sewer and Water Authority, a public corporation established by the Townships, for the operation, maintenance and administration of the project as permitted by the contract with the County. Upon final payment of the bond issues described in Note 10, ownership in the systems will revert to the Townships. The St. Clair River Sewer and Water Authority is reported in the annual financial statements of the Charter Township of East China as a discretely presented component unit. The Authority does not report the Utility Fixed Assets on its Balance Sheet. The Townships report the respective equity portion of the Fixed Assets on the Balance Sheets of the respective Sewer and Water Funds.

NOTE 12 - DEFERRED COMPENSATION:

The Township offers its employees a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The Township has agreed to contribute 10% of all full-time employees' earnings to the plan. The plan also permits the employee to defer a portion of their salary until future years. The deferred compensation is not available until termination, retirement, death, or unforeseeable emergency.

Township contributions to the plan in 2007 were \$14,932.

A trust, custodial account or annuity contract exists. Assets are owned or held by the trust, custodian or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employer creditors nor can they be used by the public employer for any purpose other than the payment of benefits to those individuals participating in the plan or their designated beneficiaries.

As part of its fiduciary role, the Township has an obligation of due care in selecting the third party administrator. The Township believes it has acted in a prudent manner and is not liable for losses that may arise from the administration of the plan.

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:

The Detroit Edison located within the Township provides a significant portion of both property tax and utility revenue. Such revenue and the approximate percentage of the total individual revenues for the year ended December 31, 2007, are summarized below:

	<u>Approximate Percentage</u>
Property taxes - General operating	65 %
- Roads	65
- Water system debt	65
Special assessments – fire	65
Sewer Services	61
Water Services	20

NOTE 14 - RISK MANAGEMENT:

The Township is exposed to various risks of loss related to property loss, torts, errors and omissions, injuries to employees, medical benefits provided to employees, etc. The Township has purchased insurance coverage for each of these types of losses; however, the Township would be responsible should the limit of coverage's be exceeded. The amount of the settlement claims for the last three years has not exceeded insurance coverage.

NOTE 15 - CONTINGENT LIABILITIES:

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002-2007 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$2,060,000 plus interest for the 2002, 2003, 2004, 2005 and 2006 tax levies. In addition the Township would be required to refund approximately \$423,000 for the 2007 tax levy, which is recorded as revenue by the Township in 2008. The Township intends to vigorously defend the original assessments and believes they will prevail. Due to the matter of the appeal, it is impossible to estimate potential liability, if any. See Note 16 for amounts designated, related to this appeal.

NOTE 16 - DESIGNATED FUND BALANCE:

Amounts designated in the general and public improvement funds are for the appeal of the tax assessments described in Note 15.

General Fund	\$ 1,148,500
Public Improvement Fund	<u>500,000</u>
	<u>\$ 1,648,500</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	Original Budget	Final Budget	Actual	Variance with Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 977,000	\$ 977,000	\$ 976,854	\$(146)
Licenses and permits	700	700	839	139
Intergovernmental -				
Federal/State	200,500	200,500	239,256	38,756
Local	12,650	12,650	13,914	1,264
Charges for services	3,550	3,550	5,517	1,967
Interest and rent	96,450	96,450	113,160	16,710
Other revenues	200	200	18,239	18,039
Total Revenues	<u>1,291,050</u>	<u>1,291,050</u>	<u>1,367,779</u>	<u>76,729</u>
Expenditures:				
General Government -				
Legislative	156,940	156,940	120,798	36,142
Supervisor	39,378	39,978	39,957	21
Elections	8,295	8,295	5,055	3,240
Clerical administrator	47,911	47,911	47,929	(18)
Assessor	38,220	38,566	37,389	1,177
Clerk's department	31,518	32,718	30,655	2,063
Board of review	1,550	1,550	867	683
Treasurer's department	45,218	45,418	42,015	3,403
Building and grounds	249,529	249,529	246,074	3,455
	<u>618,559</u>	<u>620,905</u>	<u>570,739</u>	<u>50,166</u>
Public Safety -				
Sheriff patrol	137,803	137,803	127,803	10,000
Constable	1,151	1,151	1,053	98
Planning Commission	21,710	21,710	20,110	1,600
Board of appeals	2,460	2,460	1,838	622
	<u>163,124</u>	<u>163,124</u>	<u>150,804</u>	<u>12,320</u>
Public Works -				
Roads and bikepaths	285,000	285,000	141,221	143,779
Street lights	6,000	6,000	5,364	636
Drains	15,000	15,000	14,675	325
	<u>306,000</u>	<u>306,000</u>	<u>161,260</u>	<u>144,740</u>
Recreation and Cultural -	<u>43,750</u>	<u>45,293</u>	<u>17,853</u>	<u>27,440</u>
Other	<u>157,507</u>	<u>153,082</u>	<u>-</u>	<u>153,082</u>
Total Expenditures	<u>1,288,940</u>	<u>1,288,404</u>	<u>900,656</u>	<u>387,748</u>
Revenues over (under) expenditures	<u>2,110</u>	<u>2,646</u>	<u>467,123</u>	<u>464,477</u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
GENERAL FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	Variance with Final Budget Positive (Negative)
Other Financing Uses:				
Transfers out	<u>-</u>	<u>-</u>	<u>(18,176)</u>	<u>(18,176)</u>
Net change in Fund Balance	2,110	2,646	448,947	446,301
Fund Balance at beginning of year	<u>1,328,692</u>	<u>1,328,692</u>	<u>1,328,692</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 1,330,802</u></u>	<u><u>\$ 1,331,338</u></u>	<u><u>\$ 1,777,639</u></u>	<u><u>\$ 446,301</u></u>

Concluded

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FIRE FUND
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Interest	\$ 50,000	\$ 50,000	\$ 85,368	\$ 35,368
Special Assessments	97,700	97,700	90,497	(7,203)
Total Revenues	<u>147,700</u>	<u>147,700</u>	<u>175,865</u>	<u>28,165</u>
Expenditures:				
Public Safety -				
Professional Fees	200	200	200	-
Fire Protection	30,000	30,000	23,368	6,632
Fire Authority	80,000	80,000	56,198	23,802
Total Expenditures	<u>110,200</u>	<u>110,200</u>	<u>79,766</u>	<u>30,434</u>
Revenues over expenditures	37,500	37,500	96,099	58,599
Fund Balance at beginning of year	<u>1,378,017</u>	<u>1,378,017</u>	<u>1,378,017</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 1,415,517</u>	<u>\$ 1,415,517</u>	<u>\$ 1,474,116</u>	<u>\$ 58,599</u>

SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

		Special Revenue Funds		
		Public Improvement	Building Inspection	Total
ASSETS				
Current assets -				
Cash and cash equivalents		\$ 552,341	\$ 1,168	\$ 553,509
Receivables - Other		1,065	-	1,065
Due from other funds		1,800		1,800
Prepays		-	100	100
		-	100	100
Total Assets		\$ 555,206	\$ 1,268	\$ 556,474
LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable		\$ -	\$ 498	\$ 498
Accrued liabilities		-	670	670
Total Liabilities		-	1,168	1,168
Fund Balance:				
Reserved -				
Prepaid expenditures		-	100	100
Unreserved -				
Designated		500,000	-	500,000
Undesignated		55,206	-	55,206
Total Fund Balance		555,206	100	555,306
Total Liabilities and Fund Balance		\$ 555,206	\$ 1,268	\$ 556,474

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
FOR THE YEAR ENDED DECEMBER 31, 2007

	Special Revenue Funds		
	Public Improvements	Building Inspection	Total
Revenues:			
Interest	\$ 25,377	\$ -	\$ 25,377
Licenses and permits	-	28,719	28,719
Total Revenues	25,377	28,719	54,096
Expenditures:			
General Government	200	-	200
Public Safety	-	46,795	46,795
	200	46,795	46,995
Revenues over (under) expenditures	25,177	(18,076)	7,101
Other Financing Sources:			
Transfers in	-	18,176	18,176
	-	18,176	18,176
Net changes in fund balance	25,177	100	25,277
Fund Balance at beginning of year	530,029	-	530,029
	530,029	-	530,029
Fund Balance at end of year	\$ 555,206	\$ 100	\$ 555,306

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

PUBLIC IMPROVEMENT FUND

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Interest	\$ 30,000	\$ 30,000	\$ 25,377	\$(4,623)
Expenditures:				
General government	<u>159,424</u>	<u>159,424</u>	<u>200</u>	<u>159,224</u>
Revenues over (under) expenditures	(129,424)	(129,424)	25,177	154,601
Other Financing Uses:				
Transfers out	<u>(400,000)</u>	<u>(400,000)</u>	<u>-</u>	<u>400,000</u>
Net change in fund balance	(529,424)	(529,424)	25,177	554,601
Fund Balance at beginning of year	<u>530,029</u>	<u>530,029</u>	<u>530,029</u>	<u>-</u>
Fund Balance at end of year	<u><u>\$ 605</u></u>	<u><u>\$ 605</u></u>	<u><u>\$ 555,206</u></u>	<u><u>\$ 554,601</u></u>

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
NONMAJOR SPECIAL REVENUE FUNDS
BUDGET AND ACTUAL
FOR THE YEAR ENDED DECEMBER 31, 2007

BUILDING INSPECTION FUND

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
Revenues:				
Licenses and permits	\$ 25,000	\$ 25,000	\$ 28,719	\$ 3,719
Expenditures:				
Public safety -				
Building inspector	35,377	35,713	33,168	\$ 2,545
Plumbing/Htg/Mechanical inspector	15,271	15,271	8,010	7,261
Electrical inspector	7,900	7,900	5,417	2,483
Professional fees	-	200	200	-
	<u>58,548</u>	<u>59,084</u>	<u>46,795</u>	<u>12,289</u>
Revenues under expenditures	(33,548)	(34,084)	(18,076)	16,008
Other Financing Sources:				
Transfers in	-	-	18,176	18,176
Net change in fund balance	(33,548)	(34,084)	100	34,184
Fund balance at beginning of year	-	-	-	-
Fund balance at end of year	<u><u>\$ (33,548)</u></u>	<u><u>\$ (34,084)</u></u>	<u><u>\$ 100</u></u>	<u><u>\$ 34,184</u></u>

FIDUCIARY FUNDS

CHARTER TOWNSHIP OF CHINA
St. Clair County, Michigan

AGENCY FUNDS
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	<u>Balance January 1, 2007</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance December 31, 2007</u>
TOTAL ALL AGENCY FUNDS				
Assets:				
Cash and cash equivalents	\$ 812,766	\$ 24,513,692	\$ 24,908,088	\$ 418,370
Liabilities:				
Due to individuals	\$ 23,000	\$ 3,668	\$ 9,768	\$ 16,900
Undistributed taxes	<u>789,766</u>	<u>24,510,024</u>	<u>24,898,320</u>	<u>401,470</u>
	<u>\$ 812,766</u>	<u>\$ 24,513,692</u>	<u>\$ 24,908,088</u>	<u>\$ 418,370</u>

CURRENT TAX COLLECTION FUND

Assets:				
Cash and cash equivalents	<u>\$ 789,766</u>	<u>\$ 24,510,024</u>	<u>\$ 24,898,320</u>	<u>\$ 401,470</u>
Liabilities:				
Undistributed taxes	<u>\$ 789,766</u>	<u>\$ 24,510,024</u>	<u>\$ 24,898,320</u>	<u>\$ 401,470</u>

PERFORMANCE BOND CUSTODIAL FUND

Assets:				
Cash and cash equivalents	<u>\$ 23,000</u>	<u>\$ 3,668</u>	<u>\$ 9,768</u>	<u>\$ 16,900</u>
Liabilities:				
Due to individuals	<u>\$ 23,000</u>	<u>\$ 3,668</u>	<u>\$ 9,768</u>	<u>\$ 16,900</u>

To the Supervisor and
Members of the Township Board
Charter Township of China
St. Clair County, Michigan

In planning and performing our audit of the financial statements of the Charter Township of China as of and for the year ended December 31, 2007, in accordance with auditing standards generally accepted in the United States of America, we considered the Charter Township of China's internal control over financial reporting (internal control) 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 the organization's internal control. Accordingly, we do not express an opinion on the effectiveness of the organization's internal control.

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 a 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 a 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.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses.

The following deficiencies in internal control are considered to be material weaknesses:

Preparation of Financial Statements in Accordance with Generally Accepted Accounting Principles.

Management routinely prepares internal financial information to assess operations and the financial position of the Township on an ongoing basis. Although the internal financial information is sufficient to operate the Township, it is not presented in accordance with generally accepted accounting principles. The Township contracts with us, the auditors, to prepare adjustments to convert the general ledger from the cash basis to the modified accrual basis, to record the information necessary for the GASB 34 adjustments, and to draft the financial statements, including all necessary notes, in accordance with generally accepted accounting principles.

The following deficiencies in internal control are considered to be significant deficiencies:

All Cash and Investment Accounts should be Reconciled to the General Ledger on a Monthly Basis.

During the audit we noted that one of the certificates of deposit held by the Township was not reconciled to the general ledger. Although a list of certificates and their balances is maintained by the Treasurer, the activity of all accounts should be recorded on the general ledger.

We understand that all checking accounts are reconciled to the general ledger on a monthly basis, and we recommend that all certificates of deposit be included in this monthly reconciliation process.

The Receipting Process should be Reviewed.

During the audit we noted that the same individual, who is responsible for processing and adjusting the utility bills, including the Detroit Edison bills, also has the ability to accept payments on the accounts. Allowing one person to process bills, adjust bills, and receipt payments creates the opportunity for discrepancies.

While we understand the constraints of a small office, these duties should be separated.

We also noted a few instances when amounts were receipted into the computer system, but were not deposited into the bank timely. We recommend the Township follow the established procedures of depositing funds at least weekly.

This communication is intended solely for the information and use of management, the Township Board, and others within the Township, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



May 12, 2008



May 12, 2008

To the Supervisor and
Members of the Board
Charter Township of China, Michigan

We have audited the financial statement of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Charter Township of China for the year ended December 31, 2007, and have issued our report thereon dated May 12, 2008. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility under U.S. Generally Accepted Auditing Standards

As stated in our engagement letter dated November 27, 2007, our responsibility, as described by professional standards, is to express opinions about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

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

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Charter Township of China's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of Audit

We performed the audit according to the planned scope and timing previously communicated to you in our Preliminary Audit Communication Letter, and discussions with the Supervisor and management.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Charter Township of China are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during 2007. We noted no transaction entered into by the governmental unit during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were the estimate for unbilled water and sewer services and depreciation. The estimates are based on subsequent billings, historical data, and useful lives of the assets. We evaluated the key factors and assumptions used to develop estimates in determining that they are reasonable in relation to the financial statements taken as a whole.

Adjustments Governmental Fund Financial Statements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, the following material misstatements detected as a result of audit procedures were corrected by management (we also proposed and management corrected a number of immaterial misstatements):

- Recorded activity of CD for the year
- Reclassified transfers of tax settlements to correct funds and adjusted taxes collected for 2008 fiscal year

Assistance with GASB 34 Presentation

As a result of our assistance with the GASB 34 presentation, we proposed several entries to the December 31, 2007 account balances to reflect the difference between the Governmental Fund and the Government-wide financial statements.

Statement on Auditing Standards No. 112

Statement on Auditing Standards No. 112 "Communicating Internal Control Related Matters Identified in an Audit" implementation was first effective for your year end December 31, 2006. Under SAS 112 internal control over financial reporting includes the annual audited financial statements including the notes being presented in accordance with Generally Accepted Accounting Principles.

If a governmental organization relies on our firm to present the financial statements in accordance with generally accepted accounting principles, we are required to report that there is a significant deficiency in internal control. We, again, fulfilled this responsibility in your internal control letter for the year ended December 31, 2007.

A substantial portion of our clients are receiving this comment, and per discussion with other CPA firms, a substantial number of their clients are also receiving the comment. This is the result of it being the practice in the past to rely on the auditor since the annual financial report is prepared once a year and we stay current on generally accepted accounting principles. We recommended to management that the Township evaluate the cost versus the benefit of expanding internal control over financial reporting to include presentation under GAAP.

Other Audit Internal Control Communication

In addition to the Report on Internal Control, we noted other items that although are not considered significant deficiencies, could improve controls, the operational efficiency and/or compliance with laws and regulations. These items are discussed in Attachment A.

Management Consultations with Other Independent Accountants

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

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction 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.

Difficulties Encountered in Performing the Audit

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

Management Representations

We have requested certain representations from management that are included in the management representation letter dated May 12, 2008.

Other

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 governmental unit’s auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the Township Board and management of the Charter Township of China and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,



Attachment A

The following is a list of items that we discussed with administration that are not considered significant deficiencies, however, are items that could improve controls, the operational efficiency of the accounting department and or compliance with laws and regulations:

A formal credit card policy should be adopted

During the audit we noted that the Township has recently acquired credit cards. The State of Michigan requires a local government to have adopted a credit card policy to set up guidelines for the use of the credit cards.

To comply with the State of Michigan requirements, and to protect the Township from any misuse of the credit cards, we recommend that the Township adopt a formal credit card policy.

Special contracts/agreements should be monitored by at least two individuals

It is our understanding that the contract for the King Road sewer line provides for “the initial cost of the construction of the installation of such sewer line extension” to be reimbursed by the company requesting the extension. During the audit we noted that the company has not reimbursed the Township for any engineering or inspection costs.

We recommend a formal process be adopted for the collection/monitoring of these special projects. It is difficult when a special agreement is set up that is outside of the normal billing process to monitor the total activity. Because of this difficulty, we recommend that one individual be assigned responsibility to initiate the billing, and another individual be assigned to monitor the billing and collection, and to ensure that the contract is being properly executed.

The payment process should be reviewed

During the audit we noted one payment made without an invoice attached. While the disbursement was a legitimate expenditure of the Township, payments should not be processed without adequate support.

It is our understanding that currently amounts are paid to several local non-profit organizations to support the missions of these organizations. While we understand the Township’s desire to support these organizations, the Michigan Department of Treasury prohibits “contributions or appropriations, which are not specifically authorized by the Constitution or State statute...” to non-profit organizations. Formal contracts for specific services to lawful wards or functions of the local unit must be negotiated and in place for the payments to be considered lawful by the Michigan Department of Treasury.

We recommend the Township either discontinue these payments, or approve formal contracts with these organizations to provide services to Township residents.

Controls over journal entries

At the present time, journal entries include a description for the entry, are numbered and maintained with support attached, and are approved by someone other than the person originating the entry. However, during the audit, we noted instances when a journal entry was not approved by a second individual.

Not having a procedure requiring that all journal entries be formally approved allows for the possibility of inaccurate financial reporting. We recommend that all journal entries be approved by an individual that is able to analyze the accompanying information supporting the entry.