

Auditing Procedures Report

Reset Form

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Issued under Public Act 2 of 1968, as amended .

Unit Name	Charter Township of East China	County	ST. CLAIR	Type	TOWNSHIP	MuniCode	74-1-100
Opinion Date-Use Calendar	Jun 12, 2008	Audit Submitted-Use Calendar	Jun 26, 2008	Fiscal Year-Use Drop List	2007		

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

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

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

General Fund Revenue:	\$ 1,554,734.00
General Fund Expenditure:	\$ 1,332,715.00
Major Fund Deficit Amount:	\$ 0.00

General Fund Balance:	\$ 595,946.00
Governmental Activities Long-Term Debt (see instructions):	\$ 126,282.00

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

CPA (First Name)	Larry	Last Name	Allen	Ten Digit License Number	1101008117		
CPA Street Address	1979 Holland Avenue	City	Port Huron	State MI	Zip Code 48060	Telephone	+1 (810) 984-3829
CPA Firm Name	Stewart, Beauvais & Whipple	Unit's Street Address	5111 S. River Road	City	East China	LU Zip	48054

CHARTER TOWNSHIP OF EAST 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 EAST CHINA, MICHIGAN

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CHARTER TOWNSHIP OF EAST CHINA, MICHIGAN

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INDEPENDENT AUDITOR'S REPORT

To the Supervisor and Members
of the Township Board
Charter Township of East China
St. Clair County, 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 remaining fund information of the Charter Township of East 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 East China, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the 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 Township'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, the discretely presented component units, each major fund, and the aggregate remaining fund information of the Charter Township of East China, Michigan, as of December 31, 2007, and the respective changes in financial position and, where applicable, cash flows 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 June 12, 2008 on our consideration of the Charter Township of East China, Michigan's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of those testings, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards*, and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 3 through 7, and schedule of budgetary comparison on page 41 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 East China, Michigan's basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining and individual nonmajor 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.

Stewart, Beausaint Whipple
Certified Public Accountants

June 12, 2008

OVERVIEW OF THE FINANCIAL STATEMENTS

The Charter Township of East 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 and component unit information. 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 (full accrual).

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 four 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.

Internal Service Funds – report activities that provide services and supplies to other Township programs. The Township utilizes a Department of Public Works internal service fund.

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 \$15,339,696. This is a net increase of \$67,621 over 2006, restated. Government-type activities comprise \$4,562,525, and business-type activities make up \$10,777,171 of the total net assets. In a condensed format, the table below shows net assets as of the December 31, 2007 and 2006.

In Thousands

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Assets				
Current assets	\$ 3,580	\$ 3,820	\$ 1,638	\$ 1,609
Restricted assets	-	-	337	333
Noncurrent assets	<u>2,835</u>	<u>2,864</u>	<u>13,350</u>	<u>13,596</u>
Total assets	<u>6,415</u>	<u>6,684</u>	<u>15,325</u>	<u>15,538</u>
Liabilities				
Current liabilities	1,727	1,941	187	230
Liabilities payable from Restricted assets	-	-	584	577
Long-term liabilities	<u>126</u>	<u>124</u>	<u>3,777</u>	<u>4,043</u>
Total liabilities	<u>1,853</u>	<u>2,065</u>	<u>4,548</u>	<u>4,850</u>
Net Assets				
Invested in capital assets – Net of related debt	2,835	2,776	9,293	9,189
Restricted	729	701	12	11
Unrestricted	<u>998</u>	<u>1,142</u>	<u>1,472</u>	<u>1,488</u>
Total net assets	<u>\$ 4,562</u>	<u>\$ 4,619</u>	<u>\$ 10,777</u>	<u>\$ 10,688</u>

The Township governmental activities experienced a net change in assets of (\$21,994).

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	\$ 103	\$ 144	\$ 1,419	\$ 1,462
Operating grants and contributions	2	3	-	-
Capital grants and contributions	-	-	-	1
General revenue:				
Property taxes	1,520	1,466	322	329
Unrestricted grants	252	283	-	-
Gain on sale of equipment	9	-	-	-
Unrestricted investment earnings	276	245	56	10
Transfers	(286)	(211)	290	374
Total Revenue	<u>1,876</u>	<u>1,930</u>	<u>2,087</u>	<u>2,176</u>
Program Expenses				
General government	681	872	-	-
Public safety	394	408	-	-
Public works	497	476	-	-
Recreation and cultural	310	168	-	-
Other activities	16	28	-	-
Water and sewer	-	-	1,997	1,830
Total Program Expenses	<u>1,898</u>	<u>1,952</u>	<u>1,997</u>	<u>1,830</u>
Changes in net assets	<u><u>\$ (22)</u></u>	<u><u>\$ (22)</u></u>	<u><u>\$ 90</u></u>	<u><u>\$ 346</u></u>

Governmental Activities

Revenues for governmental activities totaled \$2,162,442 in 2007. Of this amount, \$1,519,880 was received from taxes, which was an increase of \$53,660 from the prior year. The next largest revenue source was investment income revenue \$276,118, an increase of \$30,721 from 2006.

Business-type Activities

The Township has two business-type activities, the water and sewer operations. Total revenue including interest income and transfers was \$2,086,657 and expenses were \$1,997,092 for a change in net assets of \$89,565. This included transfers in from the governmental funds and component units of \$272,019 and \$18,031, respectively.

FINANCIAL ANALYSIS OF MAJOR TOWNSHIP FUNDS AND BUDGETS

Governmental Funds

The General Fund ended 2007 with a fund balance of \$595,946, of which \$77,918 was reserved for prepaid expenditures, \$61,125 designated for tax appeal, and the remaining balance of \$456,903 unreserved/undesignated. The general fund balance had a net increase of \$134,643 from the prior year mainly as a result of a decrease of General Government expenditures in 2007 of \$171,412, with the

majority of the expenditure decrease being litigation fees in 2006 of \$182,000. The Townships other major governmental funds had the following revenues over expenditures as follows:

- Capital Projects Fund had revenues in excess of expenditures of \$28,173 due to property tax collections of \$338,813 with only \$91,736 of capital outlay relating to road maintenance and bikepath improvement fees of \$82,961 and \$8,775, respectively. In addition, \$233,412 was transferred to the Water Fund for various repair and maintenance expenses.

The General Fund budget was amended throughout the year as deemed necessary, primarily to prevent over expenditure. The most significant amendment was to Other Expenditures to decrease the budget by \$70,129 due to the decrease in litigation fees.

Business-type Activities

As indicated earlier the Township only has two business-type activities, the water and sewer operations. Total revenues amounted to \$2,086,657 for 2007 and expenses were \$1,997,092 for an increase in net assets of \$89,565. This increase is a result of decreased Water and Sewer Authority charges of \$94,647.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

The Township had \$16,185,383 invested in capital assets for its government and business-type activities (net of accumulated depreciation) as of December 31, 2007. The investment is capital assets, which include land, land improvements, buildings and improvements, shared road improvements, machinery and equipment, and water and sewer lines. During the year the Township added \$433,035 of capital assets, \$172,980 in the government activities and \$260,055 in the business-type activities.

Of the business-type activities, \$21,617 was for equipment upgrades, with the remaining \$238,439 for construction of water and sewer lines.

Of the governmental activities, \$13,075 was for park improvements, \$8,775 was for bike path improvements, \$13,780 was for new computer software, \$82,961 was for road improvements, with the remaining \$54,389 for various vehicle/equipment purchases.

	Governmental Activities		Business-type Activities	
	2007	2006	2007	2006
Land	\$ 124,442	\$ 124,442	\$ 72,530	\$ 72,530
Land improvements	2,559,870	2,540,120	-	-
Building and improvements	1,105,721	1,103,621	7,613,053	7,992,885
Shared road improvements	171,161	88,200	-	-
Equipment	756,460	716,639	898,505	861,205
Water and sewer	-	-	12,411,262	12,155,248
Construction in progress	8,087	-	126,841	163,685
	<u>4,725,741</u>	<u>4,573,022</u>	<u>21,122,191</u>	<u>21,245,553</u>
Accumulated depreciation	(1,890,786)	(1,708,999)	(7,771,763)	(7,739,491)
	<u>\$ 2,834,955</u>	<u>\$ 2,864,023</u>	<u>\$ 13,350,428</u>	<u>\$ 13,506,062</u>

Additional information on the Township's capital assets can be found in Note 8 to the financial statements.

Long-Term Debt

At December 31, 2007 the Township had \$4,165,481 in long-term debt compared to \$4,424,658 at December 31, 2006, a decrease of \$259,177 from the prior year. The following table shows the long-term debt at December 31, 2007 and 2006:

	Governmental Activities		Business-type Activities	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Environmental Quality				
Bond Contract Payable	\$ -	\$ -	\$ 4,032,072	\$ 4,290,016
Compensated Absences	<u>120,835</u>	<u>123,723</u>	<u>12,574</u>	<u>10,919</u>
	<u>\$ 120,835</u>	<u>\$ 123,723</u>	<u>\$ 4,044,646</u>	<u>\$ 4,300,935</u>

ECONOMIC FACTORS AND NEXT YEARS BUDGET

For 2008, the Township Board adopted a General Fund Budget with estimated revenues of \$1,592,120 and expenditures of \$1,605,975. This is approximately a 2.4% increase in revenue and 5.3% increase in expenditures from the 2007 budget and will result in a reduction of \$13,855 in fund balance. Since local municipalities in the State of Michigan have seen State Shared Revenues decrease significantly during the past few years, the 2008 budget anticipates an approximate \$17,275 decrease for the upcoming year. The increase in expenditures is expected to be basically stable, although due to escalating fuel prices, costs to run equipment to maintain our township parks and properties will be affected, as well as increases for operating supplies. The budget for Elections has been increased due to the Primary and Presidential Elections being held in 2008.

The Township Board determined that the 2008 water and sewer rates could remain at the 2007 rates. Some of the major projects for the year include improvements to the Department of Public Works' garage, as well as completing the replacement of the Recor Road lift station and replacing a water line on Orchard Drive from a 4" line to a 8" line.

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) 765-8879.

BASIC FINANCIAL STATEMENTS

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
DECEMBER 31, 2007

	Primary Government			Component Units
	Governmental Activities	Business Type Activities	Total	
ASSETS:				
Cash and cash equivalents	\$ 204,888	\$ 3,718	\$ 208,606	\$ 41,456
Investments	1,637,054	1,231,383	2,868,437	699,765
Receivables	1,651,007	321,656	1,972,663	87,077
Due from primary government	-	-	-	49,884
Deposit with authority	-	32,900	32,900	-
Inventory	-	32,145	32,145	-
Prepaid expenses	87,449	16,705	104,154	29,184
Restricted Assets -				
Cash and cash equivalents	-	879	879	-
Receivables	-	60,957	60,957	-
Investments	-	11,337	11,337	-
Taxes receivable	-	263,405	263,405	-
Capital Assets (net of accumulated depreciation)-				
Assets not being depreciated	132,529	199,371	331,900	-
Assets being depreciated	2,702,426	13,151,057	15,853,483	-
Total Assets	<u>6,415,353</u>	<u>15,325,513</u>	<u>21,740,866</u>	<u>907,366</u>
LIABILITIES:				
Payables and accrued liabilities	162,957	11,970	174,927	48,746
Accrued interest	-	2,779	2,779	-
Advances and deposits	3,662	91,317	94,979	56,000
Deferred revenue	1,559,927	-	1,559,927	36,673
Bond payable (current)	-	30,546	30,546	-
Due to component unit	-	49,884	49,884	-
Liabilities Payable From Restricted Assets-				
Bonds payable (current)	-	237,580	237,580	-
Deferred revenue	-	324,362	324,362	-
Accrued interest	-	22,422	22,422	-
Non-Current liabilities-				
Due in more than one year				
Contracts payable	-	3,763,946	3,763,946	-
Accrued vacation and sick leave	126,282	13,536	139,818	94,973
Total Liabilities	<u>1,852,828</u>	<u>4,548,342</u>	<u>6,401,170</u>	<u>236,392</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	2,834,955	9,293,155	12,128,110	-
Restricted-				
Debt retirement	-	12,216	12,216	-
Cemetery perpetual care				
Nonexpendable	46,407	-	46,407	-
Capital projects	682,942	-	682,942	-
Unrestricted	998,221	1,471,800	2,470,021	657,763
Total Net Assets	<u>\$ 4,562,525</u>	<u>\$ 10,777,171</u>	<u>\$ 15,339,696</u>	<u>\$ 657,763</u>

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

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Primary Government				
Governmental activities:				
General Government	\$ 680,631	\$ 58,466	\$ -	\$ -
Public Safety	394,172	41,060	1,748	-
Public Works	497,603	650	725	-
Recreation and Culture	309,822	2,465	-	-
Other Activities	15,830	-	-	-
Total governmental activities	1,898,058	102,641	2,473	-
Business type activities				
Water Fund	1,110,664	814,952	-	-
Sewer Fund	886,428	603,832	-	-
	1,997,092	1,418,784	-	-
Total Primary Government	3,895,150	1,521,425	2,473	-
Component Units				
Sewer/Water Authority	1,258,063	1,258,063	-	93,000
Brownfield Development Authority	148,606	-	-	-
Total Component Units	1,406,669	1,258,063	-	93,000

General revenues:
Property taxes
Grants and contribution not -
restricted to specific programs
Gain on sale of equipment
Unrestricted investment income
Transfers
Total general revenues and transfers

Change in net assets

Net assets at beginning of year

Prior period adjustment

Net assets at beginning of year, restated

Net assets at end of year

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

Net (Expense) Revenue and Change in Net Assets

Primary Government			
Governmental Activities	Business Type Activities	Total	Component Units
\$(622,165)	\$ -	\$(622,165)	\$ -
(351,364)	-	(351,364)	-
(496,228)	-	(496,228)	-
(307,357)	-	(307,357)	-
(15,830)	-	(15,830)	-
<u>(1,792,944)</u>	<u>-</u>	<u>(1,792,944)</u>	<u>-</u>
-	(295,712)	(295,712)	-
<u>-</u>	<u>(282,596)</u>	<u>(282,596)</u>	<u>-</u>
<u>-</u>	<u>(578,308)</u>	<u>(578,308)</u>	<u>-</u>
<u>(1,792,944)</u>	<u>(578,308)</u>	<u>(2,371,252)</u>	<u>-</u>
-	-	-	93,000
<u>-</u>	<u>-</u>	<u>-</u>	<u>(148,606)</u>
<u>-</u>	<u>-</u>	<u>-</u>	<u>(55,606)</u>
1,519,880	322,274	1,842,154	154,558
252,477	-	252,477	-
8,853	-	8,853	-
276,118	55,549	331,667	32,360
(286,328)	290,050	3,722	(3,722)
<u>1,771,000</u>	<u>667,873</u>	<u>2,438,873</u>	<u>183,196</u>
<u>(21,944)</u>	<u>89,565</u>	<u>67,621</u>	<u>127,590</u>
4,618,763	10,687,606	15,306,369	530,173
(34,294)	-	(34,294)	-
<u>4,584,469</u>	<u>10,687,606</u>	<u>15,272,075</u>	<u>530,173</u>
<u>\$ 4,562,525</u>	<u>\$ 10,777,171</u>	<u>\$ 15,339,696</u>	<u>\$ 657,763</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

BALANCE SHEET
GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	General	Capital Projects	Other Governmental Funds	Total Governmental Funds
ASSETS				
Assets:				
Cash and cash equivalents	\$ 1,355	\$ 100,508	\$ 102,106	\$ 203,969
Investments	487,747	669,630	418,805	1,576,182
Receivables -				
Property taxes	977,673	289,724	-	1,267,397
Interest and accounts	10,548	190	3,884	14,622
Due from other governmental units	85,537	-	-	85,537
Due from other funds	219,786	63,384	-	283,170
Prepaid expenditures	77,918	-	510	78,428
	<u>\$ 1,860,564</u>	<u>1,123,436</u>	<u>\$ 525,305</u>	<u>\$ 3,509,305</u>
LIABILITIES & FUND BALANCES				
Liabilities:				
Accounts payable	\$ 47,992	87,386	\$ 5,303	\$ 140,681
Accrued liabilities	6,145	-	1,101	7,246
Advances and deposits	3,662	-	-	3,662
Due to employees	-	-	8,097	8,097
Deferred revenue	1,206,819	353,108	-	1,559,927
	<u>1,264,618</u>	<u>440,494</u>	<u>14,501</u>	<u>1,719,613</u>
Fund Balances:				
Reserved -				
Prepays	77,918	-	510	78,428
Capital projects	-	412,787	-	412,787
Perpetual care	-	-	46,407	46,407
Unreserved -				
Designated -				
Tax appeal	61,125	270,155	60,000	391,280
Undesignated -				
General Fund	456,903	-	-	456,903
Special Revenue Funds	-	-	403,887	403,887
Total Equity	<u>595,946</u>	<u>682,942</u>	<u>510,804</u>	<u>1,789,692</u>
	<u>\$ 1,860,564</u>	<u>\$ 1,123,436</u>	<u>\$ 525,305</u>	<u>\$ 3,509,305</u>
Total Liabilities and Fund Equity	<u>\$ 1,860,564</u>	<u>\$ 1,123,436</u>	<u>\$ 525,305</u>	<u>\$ 3,509,305</u>

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

CHARTER TOWNSHIP OF EAST 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	\$ 1,789,692
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 therefore are not reported in the funds.	
Capital assets	4,038,464
Accumulated depreciation	(1,519,772)
Internal Service Fund used by management to charge cost of the Townships department of public works activities. The assets and liabilities of the internal service fund (department of public works) is included in governmental activities in the statement of net assets.	
	303,784
Long - term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds.	
Accrued vacation and sick payable	(49,643)
Net Assets of governmental activities	\$ <u>4,562,525</u>

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	General	Capital Projects Fund	Other Governmental Funds	Total Governmental Funds
Revenues:				
Taxes	\$ 1,181,067	\$ 338,813	\$ -	\$ 1,519,880
Licenses and permits	25,261	-	41,036	66,297
Intergovernmental -				
Federal/State	254,950	-	-	254,950
Charges for services	33,205	-	-	33,205
Interest and rent	57,786	41,571	38,395	137,752
Other	2,465	-	674	3,139
Total Revenues	1,554,734	380,384	80,105	2,015,223
Expenditures:				
General Government	551,946	-	115,734	667,680
Public Safety	338,537	-	55,635	394,172
Public Works	231,461	98,722	-	330,183
Recreation and Cultural	194,941	8,775	-	203,716
Other Activities	15,830	-	-	15,830
Total Expenditures	1,332,715	107,497	171,369	1,611,581
Excess of revenues over (under) expenditures	222,019	272,887	(91,264)	403,642
Other Financing Sources (Uses):				
Transfers from other funds	22,325	-	-	22,325
Transfer to component units	(11,094)	(3,215)	-	(14,309)
Transfers to other funds	(98,607)	(241,499)	(136,325)	(476,431)
Total Other Financing Sources (Uses)	(87,376)	(244,714)	(136,325)	(468,415)
Excess of revenues and other sources over (under) expenditures and other uses	134,643	28,173	(227,589)	(64,773)
Fund Balances at beginning of year	495,597	654,769	738,393	1,888,759
Prior period adjustment	(34,294)	-	-	(34,294)
Fund Balances at beginning of year, restated	461,303	654,769	738,393	1,854,465
Fund Balances at end of year	\$ 595,946	\$ 682,942	\$ 510,804	\$ 1,789,692

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

CHARTER TOWNSHIP OF EAST 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	\$ (64,773)
<p>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.</p>	
Capital outlay	118,580
Depreciation expense	(160,119)
<p>Internal service fund used by management to charge costs of the Township's department of public works activities. The net revenues (expenses) attributable to those funds is reported with governmental activities.</p>	
	83,335
<p>Repayment of the principal of long-term debt consumes the current financial resources of governmental funds, however has no effect on net assets.</p>	
Increase in accrued vacation and sick payable	<u>1,033</u>
Change in net assets of governmental activities	<u><u>\$ (21,944)</u></u>

The notes to the financial statements are an integral part of this statement.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF NET ASSETS
PROPRIETARY FUNDS
DECEMBER 31, 2007

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
ASSETS:				
Current Assets:				
Cash and cash equivalents	\$ 539	\$ 3,179	\$ 3,718	\$ 919
Investments	278,619	952,764	1,231,383	60,872
Account receivable-				
Utility charges	143,374	113,684	257,058	-
Connections fees	-	568	568	-
Other	2,543	-	2,543	-
Interest receivable	-	1,844	1,844	-
Due from other governmental units	16,000	-	16,000	-
Due from other funds	25,878	17,765	43,643	281
Deposit with authority	-	32,900	32,900	-
Inventory	32,145	-	32,145	-
Prepaid expenses	8,707	7,998	16,705	9,021
Total Current Assets	<u>507,805</u>	<u>1,130,702</u>	<u>1,638,507</u>	<u>71,093</u>
Restricted Assets:				
Cash and cash equivalents	879	-	879	-
Investments	11,337	-	11,337	-
Due from other funds	60,957	-	60,957	-
Taxes receivable	263,405	-	263,405	-
	<u>336,578</u>	<u>-</u>	<u>336,578</u>	<u>-</u>
Property, Plant and Equipment:				
Land	36,054	36,476	72,530	-
Buildings and improvement	186,878	7,426,175	7,613,053	122,298
Utility system	10,005,235	2,406,027	12,411,262	-
Machinery and equipment	248,274	650,231	898,505	556,892
Construction in progress	-	126,841	126,841	8,087
	<u>10,476,441</u>	<u>10,645,750</u>	<u>21,122,191</u>	<u>687,277</u>
Less - accumulated depreciation	(2,772,332)	(4,999,431)	(7,771,763)	(371,014)
	<u>7,704,109</u>	<u>5,646,319</u>	<u>13,350,428</u>	<u>316,263</u>
Other Assets:				
Advance to other funds	-	250,000	250,000	-
	<u>-</u>	<u>250,000</u>	<u>250,000</u>	<u>-</u>
Total Assets	<u>\$ 8,548,492</u>	<u>\$ 7,027,021</u>	<u>\$ 15,575,513</u>	<u>\$ 387,356</u>

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

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
LIABILITIES:				
Current Liabilities:				
Accounts payable	\$ 1,276	\$ 9,186	\$ 10,462	\$ 3,251
Deposits payable	57,006	34,311	91,317	-
Accrued liabilities	485	1,023	1,508	3,682
Accrued interest	2,779	-	2,779	-
Due to component unit	23,116	26,768	49,884	-
Contracts payable (current portion)	30,546	-	30,546	-
Total Current Liabilities	<u>115,208</u>	<u>71,288</u>	<u>186,496</u>	<u>6,933</u>
Current Liabilities - (Payable from restricted assets):				
Deferred revenue	324,362	-	324,362	-
Accrued interest	22,422	-	22,422	-
Contracts payable (current portion)	237,580	-	237,580	-
	<u>584,364</u>	<u>-</u>	<u>584,364</u>	<u>-</u>
Long-Term Liabilities (less current portions):				
Contracts payable	3,763,946	-	3,763,946	-
Advance from other funds	250,000	-	250,000	-
Accrued vacation and sick pay	6,768	6,768	13,536	76,639
Total Long-Term Liabilities	<u>4,020,714</u>	<u>6,768</u>	<u>4,027,482</u>	<u>76,639</u>
Total Liabilities	<u>4,720,286</u>	<u>78,056</u>	<u>4,798,342</u>	<u>83,572</u>
NET ASSETS:				
Investment in capital assets, net of related liabilities	3,646,836	5,646,319	9,293,155	316,263
Reserved - Debt retirement	12,216	-	12,216	-
Unrestricted	169,154	1,302,646	1,471,800	(12,479)
Total Net Assets	<u>\$ 3,828,206</u>	<u>\$ 6,948,965</u>	<u>\$ 10,777,171</u>	<u>\$ 303,784</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	Business Type Activities-Enterprise Funds			Governmental Activities
	Water	Sewer	Total	Internal Service Fund
Operating Revenues:				
Charges for services	\$ 713,102	\$ 578,105	\$ 1,291,207	\$ 76,546
Penalty charges	11,805	8,513	20,318	-
Equipment rentals	84,600	-	84,600	59,316
Other	5,445	17,214	22,659	435
Total Operating Revenues	<u>814,952</u>	<u>603,832</u>	<u>1,418,784</u>	<u>136,297</u>
Operating Expenses:				
Personnel services	41,296	72,547	113,843	158,009
Water/Sewer Authority charges	622,861	544,469	1,167,330	-
Supplies	58,527	4,639	63,166	30,560
Other services and charges	3,251	21,289	24,540	6,661
Insurance	10,983	9,931	20,914	5,742
Repairs and maintenance	49,817	9,528	59,345	2,807
Equipment rental	5,945	20,306	26,251	-
Depreciation	212,519	203,170	415,689	41,929
Other	3,051	549	3,600	263
Total Operating Expenses	<u>1,008,250</u>	<u>886,428</u>	<u>1,894,678</u>	<u>245,971</u>
Operating Loss	<u>(193,298)</u>	<u>(282,596)</u>	<u>(475,894)</u>	<u>(109,674)</u>
Non-Operating Revenues (Expenses):				
Property taxes	322,274	-	322,274	-
Contribution of capital assets	-	-	-	8,853
Interest on bonds	(102,414)	-	(102,414)	-
Interest earned	14,375	41,174	55,549	2,069
Total Non-Operating Revenues (Expenses)	<u>234,235</u>	<u>41,174</u>	<u>275,409</u>	<u>10,922</u>
Net Income (Loss) before transfers	<u>40,937</u>	<u>(241,422)</u>	<u>(200,485)</u>	<u>(98,752)</u>
Transfers In:				
Transfer from General Fund	38,607	-	38,607	60,000
Transfer from Sewer and Water Authority	9,281	8,750	18,031	-
Transfer from Capital Projects Fund	233,412	-	233,412	8,087
Transfer from Township Improvement	-	-	-	114,000
	<u>281,300</u>	<u>8,750</u>	<u>290,050</u>	<u>182,087</u>
Net Income (Loss)	322,237	(232,672)	89,565	83,335
Net assets at beginning of year	<u>3,505,969</u>	<u>7,181,637</u>	<u>10,687,606</u>	<u>220,449</u>
Net Assets end of year	<u>\$ 3,828,206</u>	<u>\$ 6,948,965</u>	<u>\$ 10,777,171</u>	<u>\$ 303,784</u>

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

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	<u>Business Type Activities-Enterprise Funds</u>			<u>Governmental</u>
	<u>Water</u>	<u>Sewer</u>	<u>Total</u>	<u>Activities</u> <u>Internal Service</u> <u>Fund</u>
Cash Flows From Operating Activities:				
Receipts from customers	\$ 736,908	\$ 704,519	\$ 1,441,427	\$ 76,700
Payment to suppliers	(767,803)	(610,443)	(1,378,246)	(43,393)
Payment to employees	(40,007)	(71,159)	(111,166)	(153,394)
Payment for other funds for services	84,600	-	84,600	43,269
Net cash provided (used) by operating activities	<u>13,698</u>	<u>22,917</u>	<u>36,615</u>	<u>(76,818)</u>
Cash Flows From Noncapital Financing Activities:				
Due to/from other funds	(87,193)	(17,577)	(104,770)	-
Advance to/from other funds	(100,000)	100,000	-	-
Operating subsidies and other fund activities	281,300	8,750	290,050	182,087
Net cash provided by noncapital financing activities	<u>94,107</u>	<u>91,173</u>	<u>185,280</u>	<u>182,087</u>
Cash Flows From Capital and Related Financing Activities:				
Bond payments -				
Principal	(257,944)	-	(257,944)	-
Interest and fiscal charges	(104,026)	-	(104,026)	-
Acquisition/construction/disposal of capital assets	(128,140)	(125,057)	(253,197)	(54,400)
Proceeds from sale of capital assets	-	-	-	8,853
Property taxes	327,811	-	327,811	-
Net cash used by capital and related financing activities	<u>(162,299)</u>	<u>(125,057)</u>	<u>(287,356)</u>	<u>(45,547)</u>
Cash Flows From Investing Activities:				
Interest earned	14,375	42,848	57,223	2,069
Sale of investments	34,330	(34,419)	(89)	(60,872)
Net cash provided (used) by investing activities	<u>48,705</u>	<u>8,429</u>	<u>57,134</u>	<u>(58,803)</u>
Net Increase (Decrease) in Cash and Cash				
Equivalents for the year	(5,789)	(2,538)	(8,327)	919
Cash and Cash Equivalents at Beginning of Year				
	<u>7,207</u>	<u>5,717</u>	<u>12,924</u>	<u>-</u>
Cash and Cash Equivalents at End of Year				
	<u>\$ 1,418</u>	<u>\$ 3,179</u>	<u>\$ 4,597</u>	<u>\$ 919</u>
Reconciliation of Net Loss to				
Net Cash Provided (Used) by Operating Activities:				
Operating loss for the year	\$(193,298)	\$(282,596)	\$(475,894)	\$(109,674)
Adjustments to reconcile operating loss				
to net cash used by operating activities -				
Depreciation	212,519	203,170	415,689	41,929
Change in assets and liabilities:				
Receivables	6,556	100,687	107,243	-
Prepaid expenses	1,485	1,351	2,836	594
Inventory	(17,461)	-	(17,461)	-
Accounts payable/accrued liabilities	2,589	(1,004)	1,585	3,069
Due to/from other funds	-	-	-	(16,328)
Vacation and sick time	1,308	1,309	2,617	3,592
Net Cash Provided (Used) By Operating Activities	<u>\$ 13,698</u>	<u>\$ 22,917</u>	<u>\$ 36,615</u>	<u>\$(76,818)</u>

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

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
DECEMBER 31, 2007

ASSETS:

Cash and cash equivalents	\$ 691,877
Accounts receivable	<u>21,205</u>
Total Assets	<u><u>\$ 713,082</u></u>

LIABILITIES:

Due to other funds	\$ 388,051
Due to component units	36,673
Due to other governmental units	<u>288,358</u>
Total Liabilities	<u><u>\$ 713,082</u></u>

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

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

COMBINING STATEMENT OF NET ASSETS
DISCRETELY PRESENTED COMPONENT UNITS
DECEMBER 31, 2007

	Sewer/Water Authority	Brownfield Redevelopment Authority	Totals
ASSETS			
Cash	\$ 2,126	\$ 39,330	\$ 41,456
Investments	699,765	-	699,765
Due from primary government	49,884	36,673	86,557
Due from Charter Township of China	37,193	-	37,193
Prepaid expenditures	29,184	-	29,184
 Total Assets	 818,152	 76,003	 894,155
 LIABILITIES			
Accounts payable	21,605	4,481	26,086
Accrued salaries and wages	14,301	-	14,301
Accrued payroll taxes	8,359	-	8,359
Deposits payable	56,000	-	56,000
Deferred revenue	-	36,673	36,673
Non-current liabilities			
Due in more than one year			
Accrued vacation and sick leave	94,973	-	94,973
 Total Liabilities	 195,238	 41,154	 236,392
 Net Assets:			
Unrestricted	\$ 622,914	\$ 34,849	\$ 657,763

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

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

COMBINING STATEMENT OF ACTIVITIES
DISCRETELY PRESENTED COMPONENT UNITS
FOR THE YEAR ENDED DECEMBER 31, 2007

Functions/Programs	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
Water/Sewer Authority				
Business Type Activities				
Water and Sewer	\$ 1,258,063	\$ 1,258,063	\$ -	\$ 93,000
Brownfield Redevelopment Authority				
Governmental Activities				
Public Works	148,606	-	-	-

General Revenues:
Property Taxes
Transfers In (Out)
Unrestricted investment income

Change in net assets

Net assets at beginning of year

Net assets at end of year

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

<u>Sewer/Water Authority</u>	<u>Brownfield Redevelopment Authority</u>	<u>Total</u>
\$ 93,000	\$ -	\$ 93,000
<u>-</u>	<u>(148,606)</u>	<u>(148,606)</u>
-	154,558	154,558
(18,031)	14,309	(3,722)
<u>31,797</u>	<u>563</u>	<u>32,360</u>
<u>13,766</u>	<u>169,430</u>	<u>183,196</u>
106,766	20,824	127,590
<u>516,148</u>	<u>14,025</u>	<u>530,173</u>
<u>\$ 622,914</u>	<u>\$ 34,849</u>	<u>\$ 657,763</u>

CHARTER TOWNSHIP OF EAST 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 East China, Michigan, a Municipal Corporation, was organized as a Township on February 12, 1859, under provisions of the constitution and general law of the State of Michigan and became a Charter Law Township on November 6, 1979, 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 5.7 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 3,600 residents in many areas including law enforcement, fire protection, water, sewer, roads, parks and natural resources, and planning and economic development.

These financial statements present the Township and its component units, entities for which the Township is considered to be financially accountable. The discretely presented component units are reported in a separate column in the government-wide financial statements to emphasize that they are legally separate from the Township.

DISCRETELY PRESENTED COMPONENT UNITS -

The St. Clair River Sewer and Water Authority - The Authority was established by the Charter Townships of China and East China for the purpose of operating and maintaining a sanitary sewage treatment plant and water filtration plant in accordance with Act 233 Public Acts of Michigan, 1955, as amended. The sewer facility commenced operations in July 1983 and the water facility began operations in July 2001.

The St. Clair River Sewer and Water Authority operates under a five (5) member Board of Commissioners appointed by the Charter Townships Boards, which establish policy and review operations.

The St. Clair River Sewer and Water Authority has contracted with the Charter Township of East China to perform the administration, operations and maintenance of the facility. The Authority charges the Charter Townships for sewer services and water services, and it is the Townships' responsibility to charge the individual users. The Sewer plant is recorded in the Sewer Fund of the Charter Township of East China. The sewer systems are recorded in the respective Charter Townships' Sewer Funds based on ownership. The Water plant and systems are recorded in the respective Charter Townships' Water Funds based on ownership. The Charter Township of East China owns 67.88% of the Water plant.

Complete financial statements of the St. Clair River Sewer and Water Authority may be obtained from the Charter Township of East China at 5111 River Road, East China, MI 48054.

Brownfield Redevelopment Authority - The Authority was created to promote the revitalization of environmentally distressed areas. The Authority is under the supervision of the Board, with the seven member Board appointed by the Supervisor and confirmed by the Township Board.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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, and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not 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.

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.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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.

Capital Projects Fund – is used to account for financial resources to be used for the acquisition or construction of major capital projects (other than those financed by Proprietary Funds).

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.

Permanent Fund - is used to account for resources that are legally restricted to the extent that only earnings and not principal may be used for the perpetual care of the Charter Township cemetery.

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

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.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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 and demand deposits. The investment trust funds/mutual funds have the general characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty, and are reported as investments.

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 the carrying amount which reasonably 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).

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.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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.

Property Tax Calendar –

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

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, 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.

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

Property, plant, and equipment of the primary government, is depreciated using the straight line method over the following estimated useful lives:

	<u>Primary Government</u>
Land improvements	10-25
Buildings and improvements	10-60
Utility systems	60
Machinery and equipment	3-25
Shared road 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.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

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

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.

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 Information –

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.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 2 - STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY - (cont'd):

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, as amended, provides that a local government unit shall not incur expenditures in excess of the amount appropriated.

During the year ended December 31, 2007, the Township incurred expenditures in a General Fund and Special Revenue Funds, 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 –			
Public Safety	\$ 338,295	\$ 338,537	\$ 242
Public Works	230,700	231,461	761
Township Improvement Fund –			
General Government	115,604	115,734	130

Deficit Fund Balance –

As of December 31, 2007 the Internal Service Fund (Governmental Activities) of the Township had a deficit unrestricted net assets of \$12,479. The Charter Township has filed a deficit elimination plan with the Department of Treasury.

NOTE 3 - DEPOSITS AND INVESTMENTS:

Authorized Deposits and Investments

The Township's investment policy and Act 20 PA 1943, 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.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont'd):

Act 20 PA 1943 as amended authorizes the Township to invest surplus funds in bonds, securities and other obligations or repurchase agreements consisting of these financial instruments of the United States government or an agency or instrumentality of the United States; bankers' acceptance of United States banks; commercial paper rated within the two highest classifications by not less than two standard rating services, which mature not more than 270 days after the date of purchase; obligations of the State of Michigan or any of the political subdivisions that at the time of purchase are rated as investment grades by not less than one standard rating service, mutual funds registered under the investment company Act of 1940, with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation, investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.111 to 129.118.

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>Component Unit</u>	<u>Total</u>
Deposits –				
Petty Cash	\$ 1,175	\$ -	\$ -	\$ 1,175
Deposits with Financial Institutions				
Checking and Savings Accounts	1,351,224	691,877	741,221	2,784,322
Certificates of Deposit	<u>246,085</u>	<u>-</u>	<u>-</u>	<u>246,085</u>
Total Deposits	<u>1,598,484</u>	<u>691,877</u>	<u>741,221</u>	<u>3,031,582</u>
Investments –				
Federal Home Loan	304,375	-	-	304,375
Investment Trust Funds	<u>1,186,400</u>	<u>-</u>	<u>-</u>	<u>1,186,400</u>
Total Investments	<u>1,490,775</u>	<u>-</u>	<u>-</u>	<u>1,490,775</u>
Grand Total	<u>\$ 3,089,259</u>	<u>\$ 691,877</u>	<u>\$ 741,221</u>	<u>\$ 4,522,357</u>
Reconciliation To Statement of Net Assets				
Reported as Cash and Cash Equivalents –				
Petty Cash	\$ 1,175	\$ -	\$ -	\$ 1,175
Deposits with Financial Institutions	8,310	691,877	41,456	741,643
Certificates of Deposit	<u>200,000</u>	<u>-</u>	<u>-</u>	<u>200,000</u>
Total Cash and Cash Equivalents Reported on Statement of Net Assets	<u>209,485</u>	<u>691,877</u>	<u>41,456</u>	<u>942,818</u>
Reported as Investments –				
Deposits with Financial Institutions	1,342,914	-	699,765	2,042,679
Federal Home Loan	304,375	-	-	304,375
Investment Trust Funds	1,186,400	-	-	1,186,400
Certificates of Deposit	<u>46,085</u>	<u>-</u>	<u>-</u>	<u>46,085</u>
Total Investments	<u>2,879,774</u>	<u>-</u>	<u>699,765</u>	<u>3,579,539</u>
Grand Total Statement of Net Assets	<u>\$ 3,089,259</u>	<u>\$ 691,877</u>	<u>\$ 741,221</u>	<u>\$ 4,522,357</u>

The Township's investment policy primary objectives, in order of priority, are safety, diversification, liquidity and return on investment. The Township Treasurer is responsible for the investment program.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont’d):

Deposits

The money market accounts and investment trust funds have been reported in the financial statements as investments even though the money market and investment trust funds have characteristics of demand deposit accounts in that the Township may deposit additional cash at any time and effectively may withdraw cash at any time without prior notice or penalty. The reason for reporting as investments is that the intent of the Township is to not make regular withdrawals from the investment trusts and money market accounts since the funds are part of the Charter Township’s pooled investment program.

Custodial Credit Risk - Deposits – is the risk that in the event of a bank failure, the Township’s deposit or investments may not be returned.

As of December 31, 2007, the bank balance of the Township’s deposits was \$4,292,821, of which \$446,407 was FDIC insured with the balance of \$3,846,414 was exposed to credit risk as it was uninsured and uncollateralized.

Investments

Custodial Credit Risk - Investments – is the risk that, in the event of the failure of the counterparty, the Township will not be able to recover the value of its investments that are in the possession of another side party. As of December 31, 2007, \$348,610 in investment was held in third-party safekeeping in the Township’s name.

Interest Rate Risk - Investments – is the risk that in the event that the market value of securities in the Township portfolio will fail due to changes in the market interest increases. The Township attempts to minimize interest rate risk by maintaining liquidity to meet all operating requirements without the need to sell securities prior to maturity and investing operating funds primarily in short term securities and money markets funds.

	Investment Maturities (fair value by years)		
	Fair Value	Less Than 1	1 to 5
U.S. Agency Securities	\$ 304,375	\$ -	\$ 304,375
Investment Trust Funds	1,186,400	1,186,400	-

Credit Risk - Investments – is the risk that an issuer or other counterparty to an investment will not fulfill its obligation. State laws and Township policy limit the types of investments the Township can purchase.

As of December 31, 2007, all of the Township’s holdings in investment trust funds of \$1,186,400 received a rating within the two highest classifications from Standard & Poor and Moody rating services.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 3 - DEPOSITS AND INVESTMENTS – (cont’d):

Concentration of Credit Risk - Investments – is the risk of loss attributed to the magnitude of the Township’s investment in a single issuer. The Township’s investment policy requires diversification by security type but does not place a fixed percentage limit for any one issuer. At December 31, 2007, the Township had greater than 5% of its total investment portfolio concentrated as follows:

Investment Type	Issuer	% of Investments
U.S. Agency Securities	Federal Home Loan Bank	20.4 %
Investment Trust Funds	Comerica Bank	39.7
Investment Trust Funds	LaSalle Bank	39.7

NOTE 4 - TAXES:

The Township property taxes are levied each December on the assessed 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.

Assessed values are established annually by the Township and are equalized by the State at an estimated percentage of the current market value. Real and personal property in the Township for the 2007 levy has a State Equalized Value (SEV) of \$940,703,993 and a taxable value of \$520,172,969.

The millage rates levied by the Township were 2.3142 for General Operating, .6858 for Capital Projects Fund, and .6235 for Water Fund (Debt Service).

The County of St. Clair has established a Tax Collection Revolving Fund whereby all local units of government are paid for the delinquent real property taxes each year.

NOTE 5 - RECEIVABLES:

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

	Governmental Activities	Business-Type Activities
Taxes	\$ 1,267,397	\$ 263,405
Accounts and Interest	298,073	382,613
Intergovernmental	85,537	-
	\$ 1,651,007	\$ 646,018

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 5 - RECEIVABLES – (cont'd):

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, as well as business funds, also 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 component of deferred revenue and unearned revenue reported in the governmental funds was as follows:

	<u>Unavailable</u>	<u>Unearned</u>
Governmental-type Activities		
General Fund –		
Property Taxes	\$ _____ -	\$ <u>1,206,819</u>
Capital Projects Fund –		
Property Taxes	_____ -	_____ 353,108
Business-type Activities		
Water Fund –		
Property Taxes	_____ -	_____ 324,362
	<u>\$ _____ -</u>	<u>\$ 1,884,289</u>
Component Units		
Brownfield Redevelopment Authority		
Property Taxes	\$ _____ -	\$ _____ 36,673

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS:

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

Due To/From Primary Government –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
General Fund	Current Tax Fund	\$ 219,786
Water Fund	Current Tax Fund	86,835
Sewer Fund	Current Tax Fund	17,765
Internal Service Fund	Current Tax Fund	281
Capital Projects Fund	Current Tax Fund	_____ 63,384
		<u>\$ 388,051</u>

Due To/From Component Unit –

Brownfield Authority	Current Tax Fund	\$ _____ 36,673
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Due to/froms represent amounts owed for undistributed taxes.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 6 - INTERFUND RECEIVABLE, PAYABLE AND TRANSFERS – (cont'd):

Transfers From/To Other Funds –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Water Fund	General Fund	\$ 38,607 (2)
Internal Service Fund	General Fund	60,000 (1)
General Fund	Cemetery Perpetual Care	1,945 (4)
General Fund	Township Improvement Fund	20,380 (3)
Water Fund	Capital Projects Fund	233,412 (3)
Internal Service Fund	Township Improvement Fund	114,000 (1)
Internal Service Fund	Capital Projects Fund	<u>8,087 (3)</u>
		<u>\$ 476,431</u>

Transfers are for (1) operating costs, (2) to subsidize bond payments, (3) to transfer costs of capitalized equipment purchases, and (4) transfer of interest revenue.

Transfers From/To Component Units –

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
Brownfield Authority	General Fund	\$ 11,094 (2)
Brownfield Authority	Capital Projects Fund	3,215 (2)
Sewer Fund	Sewer and Water Authority	8,750 (1)
Water Fund	Sewer and Water Authority	<u>9,281 (1)</u>
		<u>\$ 32,340</u>

Transfers made for (1) equipment purchases, and for (2) disbursements of taxes collected.

NOTE 7 - INTERFUND ADVANCES:

Interfund advances described as Advances To/From Other Fund, reflect long-term amounts due or owed to a particular fund by another fund of the township. These amounts include current portion of long-term loans. A summary of these balances at December 31, 2007 is as follows:

Advance To/From Primary Government –

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amount</u>
Sewer Fund	Water Fund	<u>\$ 250,000</u>

Advance is for start-up costs for the Water Authority Fund.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 8 - 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>Deletions/</u>	<u>Dec. 31, 2007</u>
	<u>Balance</u>	<u>Additions</u>	<u>Adjustments</u>	<u>Balance</u>
Governmental activities:				
Capital assets, not being depreciated:				
Land	\$ 124,442	\$ -	\$ -	\$ 124,442
Construction	<u>-</u>	<u>8,087</u>	<u>-</u>	<u>8,087</u>
Total capital assets, not being depreciated	<u>124,442</u>	<u>8,087</u>	<u>-</u>	<u>132,529</u>
Capital assets, being depreciated:				
Land improvements	2,540,120	19,750	-	2,559,870
Buildings and improvements	1,103,621	2,100	-	1,105,721
Shared road improvements	88,200	82,961	-	171,161
Machinery and equipment	<u>716,639</u>	<u>60,082</u>	<u>20,261</u>	<u>756,460</u>
Total capital assets being depreciated	<u>4,448,580</u>	<u>164,893</u>	<u>20,261</u>	<u>4,593,212</u>
Less accumulated depreciation for:				
Land improvements	\$ 1,047,350	\$ 121,457	\$ -	\$ 1,168,807
Buildings and improvements	243,184	21,526	-	264,710
Shared road improvements	-	4,410	-	4,410
Machinery and equipment	<u>418,465</u>	<u>54,655</u>	<u>20,261</u>	<u>452,859</u>
Total accumulated depreciation	<u>1,708,999</u>	<u>202,048</u>	<u>20,261</u>	<u>1,890,786</u>
Total capital assets being depreciated, net	<u>2,739,581</u>	<u>(37,155)</u>	<u>-</u>	<u>2,702,426</u>
Governmental activities capital assets, net	<u>\$ 2,864,023</u>	<u>\$ (29,068)</u>	<u>\$ -</u>	<u>\$ 2,834,955</u>
Business-type Activities:				
Capital assets, not being depreciated:				
Land	\$ 72,530	\$ -	\$ -	\$ 72,530
Construction in progress	<u>163,685</u>	<u>162,537</u>	<u>199,381</u>	<u>126,841</u>
	<u>236,215</u>	<u>162,537</u>	<u>199,381</u>	<u>199,371</u>
Capital assets, being depreciated:				
Buildings and improvements	7,992,885	3,586	383,417	7,613,054
Utility systems	12,155,248	275,282	(19,268)	12,411,262
Equipment	<u>861,205</u>	<u>18,031</u>	<u>19,268</u>	<u>898,504</u>
Total capital assets being depreciated	21,009,338	296,899	383,417	20,922,820
Less accumulated depreciation	<u>(7,739,491)</u>	<u>(415,689)</u>	<u>(383,417)</u>	<u>(7,771,763)</u>
Total capital assets being depreciated, net	<u>13,269,847</u>	<u>(118,790)</u>	<u>-</u>	<u>13,151,057</u>
Business activities capital assets, net	<u>\$13,506,062</u>	<u>\$ 43,747</u>	<u>\$ 199,381</u>	<u>\$ 13,350,428</u>

**CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 8 - CAPITAL ASSETS – (cont'd):

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

Governmental activities:	
General Government	\$ 27,754
Public Works	4,410
Recreation and Culture	<u>127,955</u>
Total depreciation expense-governmental activities	<u>\$ 160,119</u>
Business-type activities:	
Water and Sewer Operation	<u>\$ 415,689</u>

In addition, there was depreciation of \$41,929 in the Internal Service Fund (Department of Public Works).

NOTE 9 - LONG-TERM DEBT:

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

	Balance January 1, 2007	Additions	Reductions	Balance December 31, 2007	One Year
Primary Government:					
Governmental Activities:					
Accrued vacation and sick leave	\$ 123,723	\$ 2,559	\$ _____	\$ 126,282	\$ _____ -
Business-type Activities:					
Water Fund –					
Water Supply System –					
Contract Payable –					
1999 Department of					
Environmental Quality Bonds	4,290,016	-	257,944	4,032,072	268,126
Accrued vacation and sick leave	<u>10,919</u>	<u>2,617</u>	<u>-</u>	<u>13,536</u>	<u>-</u>
	<u>4,300,935</u>	<u>2,617</u>	<u>257,944</u>	<u>4,045,608</u>	<u>268,126</u>
Total Primary Government	<u>\$ 4,424,658</u>	<u>\$ 5,176</u>	<u>\$ 260,532</u>	<u>\$ 4,171,890</u>	<u>\$ 268,126</u>
Component Unit:					
Accrued vacation and sick leave	<u>\$ 73,259</u>	<u>\$ 21,714</u>	<u>\$ _____</u>	<u>\$ 94,973</u>	<u>\$ _____</u>

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

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 9 - LONG-TERM DEBT - (cont'd):

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 East China along with the Charter Township of 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 East China and China in the ratio of 67.88% and 32.12%, respectively.

The Townships are required to make payments to the St Clair County DPW to meet debt service requirements. It is the intention of the Charter Township of East China to pay the obligation for Issue A to the County from property taxes and Issue B from the water fund (subsidized by the general fund). Upon final payment of the respective bond issues ownership of 67.88% of the system will revert to the Township.

The balance of the Issue A and Issue B bonds payable at December 31, 2007, which represent the 67.88% apportioned to the Charter Township of East China is \$3,587,458 and \$444,614, respectively. The annual requirements to pay the principal and interest on the Issue A and Issue 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	2.50 %	\$ 268,126	\$ 97,451	\$ 365,577
2009	2.50	271,520	90,705	362,225
2010	2.50	278,308	83,832	362,140
2011	2.50	285,096	76,789	361,885
2012	2.50	295,278	69,535	364,813
2013-2017	2.50	1,581,604	232,234	1,813,838
2018-2020	2.50	<u>1,052,140</u>	<u>39,880</u>	<u>1,092,020</u>
		<u>\$ 4,032,072</u>	<u>\$ 690,426</u>	<u>\$ 4,722,498</u>

Accrued Vacation and Sick Pay -

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. The Governmental Fund portion of \$126,282 as well as the Enterprise Fund portion of \$13,536, has been recorded in the government-wide financial statements as a long-term liability.

\$ 139,818

In addition, \$94,973 was recorded in the Component Unit St. Clair River Sewer and Water Authority Fund.

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10 - EMPLOYEE PENSION PLAN:

Plan Description -

The Charter Township of East China participates in the Municipal Employees Retirement System (MERS), a multiple employer state-wide, public employee defined benefit pension plan created under Public Act 135 of 1945, and now operates under Public Act 220 of 1996, and the MERS Plan Document as revised. MERS was established to provide retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. Act No. 427 of the Public Acts of 1984, as amended, establishes and amends the benefits 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, 1134 Municipal Way, Lansing, Michigan 48917 or by calling (800) 767-6377.

Funding Policy -

The plan adopted by the Charter Township Board requires members to contribute 4.7% of the annual compensation. The Township is required to contribute at an actuarially determined rate. The contribution requirements of plan members and the Township are established and may be amended by the Township, depending on the MERS contribution program adopted by the Township.

Annual Pension Costs -

For fiscal year 2007, the Charter Township's annual pension cost of \$128,379 for MERS was equal to the Township's required and actual contributions. The required contribution was determined as part of the December 31, 2005, actuarial valuation using the entry age actuarial cost method. The actuarial assumptions included (a) a rate of return on the investment of present and future assets of 8.0% (b) projected salary increases of 4.5% per year compounded annually, attributable to inflation (c) additional projected salary increases ranging from 0.0% to 4.2% per year, depending on age, attributable to seniority/merit and (d) the assumption that benefits will increase 2.5% (annually) after retirement. The actuarial value of MERS assets was determined using techniques on a basis of evaluation method that assumes the fund earns the expected rate of return (8%) and includes as adjustment to reflect market value.

Three-Year Trend Information

<u>Fiscal Year Ending December 31,</u>	<u>Annual Pension Costs (APC)</u>	<u>Percentage of APC Contribution</u>	<u>Net Pension Obligation</u>
2005	\$ 92,656	100 %	-
2006	112,260	100	-
2007	128,379	100	-

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007

NOTE 10 - EMPLOYEE PENSION PLAN - (cont'd):

Schedule of Funding Progress

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) Entry Age (b)	Un-funded (Over-funded) Accrued Liability (UAAL) (b-a)	Funded Ratio AAL (a/b)	Covered Payroll (c)	UAAL as a % of Covered Payroll ((b-a)/c)
2004	\$ 3,797,803	\$ 4,681,740	\$ 883,937	81 %	\$ 725,516	122 %
2005	3,962,839	5,040,166	1,077,327	79	810,661	133
2006	4,209,488	5,213,769	1,004,281	81	854,931	117

NOTE 11 - POST RETIREMENT BENEFITS:

In addition to the pension benefits described in Note 10, the Charter Township of East China provides 50% of the health insurance premium for any employee that retires with a minimum of 25 years of continued employment with the Township. Expenditures for post-retirement health care benefits are recognized as a pay-as-you-go basis and amounted to \$12,920 for two employees for 2007.

In 2007, the Township began participating in MERS Health Care Savings Program (HCSP) where employees may contribute between \$30 and \$12,000 per year. Also, 100% of vacation and sick leave at the time of termination or retirement will be contributed to the HCSP.

NOTE 12 - RESTRICTED ASSETS:

The restricted assets of \$336,578 in the Water Fund are for capital improvements/debt retirement.

NOTE 13 - PRINCIPAL TAXPAYER AND UTILITY CUSTOMER:

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

	<u>Revenues Provided</u>	<u>Approximate Percentage</u>
Property taxes	\$ 1,201,532	65.22 %
Wastewater treatment service	182,147	31.51
Water purchases	104,465	14.65

NOTE 14 - CONTINGENT LIABILITIES:

Primary Government –

One of the Township's major taxpayers, the Detroit Edison Company, is appealing its tax assessments for the 2002 through 2006 tax assessments. The taxpayer has paid the contested amount. Should the taxpayer prevail, the Township would be required to refund approximately \$2,560,000 plus interest for 2002 through 2005 tax levy. In addition, the Township would be required to refund approximately \$700,000 for 2005 tax levy, which is recorded as revenue by the Township in 2006. The Township has designated a portion of fund balance for the contested amounts (See Note 15). 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 any potential liability, if any.

**CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan**

**NOTES TO FINANCIAL STATEMENTS
DECEMBER 31, 2007**

NOTE 15 - RESERVED/DESIGNATED FUND BALANCE/RETAINED EARNINGS:

Reserved Fund Balance/Retained Earnings –

Fund Balance/Retained Earnings has been reserved/designated in the various fund types to indicate that a portion of the Fund Balance/Retained Earnings is not available but reserved for specific purposes:

<u>Fund Type/Fund</u>	<u>Description</u>	<u>Amount</u>
Reserved –		
Fund Balance –		
General	Prepaid Expenditures	\$ 77,918
Building Inspections	Prepaid Expenditures	510
Capital Projects	Capital Projects	412,787
Cemetery Perpetual Care	Perpetual Care	<u>46,407</u>
		<u>\$ 537,622</u>
Retained Earnings –		
Water Fund	Debt Retirement	<u>\$ 12,216</u>
Designated –		
Fund Balance –		
General	Tax Appeal	\$ 61,125
Township Improvement	Tax Appeal	60,000
Capital Projects	Tax Appeal	<u>270,155</u>
		<u>\$ 391,280</u>

NOTE 16 - 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 17 - PRIOR PERIOD ADJUSTMENT:

Due to corrections made for the prior year, the Township has restated beginning governmental activity net assets and general fund balance by \$34,294 for fire protection services that should have been expensed in 2006.

Prior year fund balance as previously stated	\$ 495,597
Fire protection services	(<u>34,294</u>)
Adjusted beginning net assets	<u>\$ 461,303</u>

REQUIRED SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	Original Budget	Amended Budget	Actual	Variance with Amended Budget Positive (Negative)
Revenues:				
Taxes	\$ 1,170,780	\$ 1,181,209	\$ 1,181,067	\$(142)
Licenses and permits	20,200	25,045	25,261	216
Intergovernmental				
State	257,800	249,879	254,950	5,071
Local	14,950	-	-	-
Charges for services	30,910	32,703	33,205	502
Interest and rent	49,600	57,400	57,786	386
Other revenue	8,300	2,511	2,465	(46)
Total revenues	<u>1,552,540</u>	<u>1,548,747</u>	<u>1,554,734</u>	<u>5,987</u>
Expenditures:				
General government	561,350	564,521	551,946	12,575
Public safety	349,755	338,295	338,537	(242)
Public works	237,450	230,700	231,461	(761)
Health and welfare	51	-	-	-
Recreation and culture	207,405	196,223	194,941	1,282
Other	87,840	17,711	15,830	1,881
Total expenditures	<u>1,443,851</u>	<u>1,347,450</u>	<u>1,332,715</u>	<u>14,735</u>
Excess of revenues over expenditures	<u>108,689</u>	<u>201,297</u>	<u>222,019</u>	<u>20,722</u>
Other Financing Sources (Uses):				
Transfers in	1,250	22,248	22,325	77
Transfers out	(89,760)	(109,701)	(109,701)	-
Total other financing sources (uses)	<u>(88,510)</u>	<u>(87,453)</u>	<u>(87,376)</u>	<u>77</u>
Excess of revenues over expenditures and other uses	<u>20,179</u>	<u>113,844</u>	<u>134,643</u>	<u>20,799</u>
Fund Balance at beginning of year	495,597	495,597	495,597	-
Prior Period Adjustment	-	-	(34,294)	(34,294)
Fund Balance at beginning of year, restated	<u>495,597</u>	<u>495,597</u>	<u>461,303</u>	<u>(34,294)</u>
Fund Balance at end of year	<u>\$ 515,776</u>	<u>\$ 609,441</u>	<u>\$ 595,946</u>	<u>\$(13,495)</u>

SUPPLEMENTARY INFORMATION

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
DECEMBER 31, 2007

	Special Revenue Funds		Permanent Fund	
	Township Improvement	Building Inspections	Cemetery Perpetual	Total
ASSETS				
Cash and cash equivalents	\$ 100,565	\$ 1,219	\$ 322	\$ 102,106
Investments	357,589	15,131	46,085	418,805
Receivables -				
Other	2,839	1,045	-	3,884
Prepaid expenditures	-	510	-	510
Total Assets	\$ 460,993	\$ 17,905	\$ 46,407	\$ 525,305
 LIABILITIES AND FUND BALANCE				
Liabilities:				
Accounts payable	\$ -	\$ 103	\$ -	\$ 103
Accrued liabilities	-	1,101	-	1,101
Due to employees	-	8,097	-	8,097
Due to individuals	-	5,200	-	5,200
Total Liabilities	-	14,501	-	14,501
 Fund Balance:				
Reserved -				
Prepays	-	510	-	510
Perpetual Care	-	-	46,407	46,407
Unreserved -				
Designated				
Tax Appeal	60,000	-	-	60,000
Undesignated	400,993	2,894	-	403,887
Total Fund Balance	460,993	3,404	46,407	510,804
Total Liabilities and Fund Balance	\$ 460,993	\$ 17,905	\$ 46,407	\$ 525,305

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	Special Revenue Funds		Permanent Fund	
	Township Improvement	Building Inspections	Cemetery Perpetual	Total
Revenues:				
Permits	\$ -	\$ 41,036	\$ -	\$ 41,036
Interest	35,090	1,373	1,932	38,395
Other	-	24	650	674
Total Revenues	35,090	42,433	2,582	80,105
Expenditures:				
General Government	115,734	-	-	115,734
Public Safety	-	55,635	-	55,635
Total Expenditures	115,734	55,635	-	171,369
Excess of revenues over (under) expenditures	(80,644)	(13,202)	2,582	(91,264)
Other Financing Uses:				
Transfers out	(134,380)	-	(1,945)	(136,325)
Excess of revenues over (under) expenditures and other uses	(215,024)	(13,202)	637	(227,589)
Fund Balances at beginning of year	676,017	16,606	45,770	738,393
Fund Balances at end of year	\$ 460,993	\$ 3,404	\$ 46,407	\$ 510,804

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues:				
Interest on investments	\$ 30,500	\$ 30,785	\$ 35,090	\$ 4,305
Expenditures:				
General Government -				
Legal Fees	60,000	-	-	-
Drain maintenance	105,000	109,504	109,504	-
Other	100,000	6,100	6,230	(130)
	<u>265,000</u>	<u>115,604</u>	<u>115,734</u>	<u>(130)</u>
Excess of revenues over (under) expenditures	(234,500)	(84,819)	(80,644)	4,175
Other Financing Uses:				
Transfers Out	-	(134,380)	(134,380)	-
Excess of revenues over (under) expenditures and other uses	(234,500)	(219,199)	(215,024)	4,175
Fund Balance at beginning of year	<u>676,017</u>	<u>676,017</u>	<u>676,017</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 441,517</u>	<u>\$ 456,818</u>	<u>\$ 460,993</u>	<u>\$ 4,175</u>

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

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

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>	<u>Variance with Amended Budget Positive (Negative)</u>
Revenues:				
Permits	\$ 80,400	\$ 40,350	\$ 41,036	\$ 686
Interest	2,700	1,355	1,373	18
Other	<u>50</u>	<u>25</u>	<u>24</u>	<u>(1)</u>
Total Revenues	<u>83,150</u>	<u>41,730</u>	<u>42,433</u>	<u>703</u>
Expenditures:				
Public Safety				
Salaries and fringe benefits	76,305	55,424	50,013	5,411
Contracted service	<u>8,750</u>	<u>6,137</u>	<u>5,622</u>	<u>515</u>
Total Expenditures	<u>85,055</u>	<u>61,561</u>	<u>55,635</u>	<u>5,926</u>
Excess of revenues over (under) expenditures	(1,905)	(19,831)	(13,202)	6,629
Fund Balance at beginning of year	<u>16,606</u>	<u>16,606</u>	<u>16,606</u>	<u>-</u>
Fund Balance at end of year	<u>\$ 14,701</u>	<u>\$(3,225)</u>	<u>\$ 3,404</u>	<u>\$ 6,629</u>

FIDUCIARY FUND

CHARTER TOWNSHIP OF EAST CHINA
St. Clair County, Michigan

CURRENT TAX FUND
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES
FOR THE YEAR ENDED DECEMBER 31, 2007

	Balance January 1, 2007	Additions	Deductions	Balance December 31, 2007
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Assets:				
Cash	\$ 904,256	\$ 22,142,826	\$ 22,355,205	\$ 691,877
Accounts receivable	24,010	43,924	46,729	21,205
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Assets	<u>\$ 928,266</u>	<u>\$ 22,186,750</u>	<u>\$ 22,401,934</u>	<u>\$ 713,082</u>
Liabilities:				
Due to other funds	\$ 345,467	\$ 8,364,664	\$ 8,322,080	\$ 388,051
Due to component units	30,045	175,206	168,578	36,673
Due to other governmental units	552,754	20,940,833	21,205,229	288,358
	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Total Liabilities	<u>\$ 928,266</u>	<u>\$ 29,480,703</u>	<u>\$ 29,695,887</u>	<u>\$ 713,082</u>

**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 Supervisor and Members of
The Township Board
Charter Township of East China
St. Clair County, 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 Charter Township of East China, Michigan as of and for the year ended December 31, 2007, which collectively comprise the Charter Township of East China, Michigan's basic financial statements and have issued our report thereon dated June 12, 2008. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Charter Township of East China, Michigan's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Charter Township of East China, Michigan's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Charter Township of East China, Michigan's internal control over financial reporting.

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

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 timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the Charter Township of East China, Michigan'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 Charter Township of East China, Michigan's financial statements that is more than inconsequential will not be prevented or detected by the Charter Township of East China, Michigan's internal control. We consider the deficiency described below to be a significant deficiency in internal control over financial reporting.

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

Management has had the auditor prepare the annual financial statements and has assigned Township staff to review the financial accuracy; however, has relied on the auditor for the financial statement presentation, including GASB 34 adjustments and the notes to the financial statements, to be in accordance with Generally Accepted Accounting Principles.

Statement on Auditing Standard No. 112 "Communicating Internal Control Related Matters Identified in an Audit" specifies that the Township is responsible for internal control over financial reporting. This financial reporting includes the financial statements, including the notes, being presented in accordance with Generally Accepted Accounting Principles.

There is a possibility that a misstatement of the Township's financial statements that is more than inconsequential could occur and not be prevented or detected by the Township's internal control.

We recommend that the Townships' management consider having someone in the Township become more familiar with reporting for governmental units under generally accepted auditing principles. However, with the implementation of any internal control procedure, efficiency and cost must be evaluated along with risk.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the Charter Township of East China, Michigan's internal control.

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

Compliance and Other Matters

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

We noted certain matters that we reported to management of Charter Township of East China in a separate letter dated June 12, 2008.

This report is intended solely for the information and use of management, the Township Board, others with the Charter Township of East China, and the Michigan Department of Treasury and is not intended to be and should be used by anyone other than these specified parties.



Certified Public Accountants

June 12, 2008



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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information, of the Charter Township of East China, Michigan for the year ended December 31, 2007, and have issued our report thereon dated June 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 and Government Auditing Standards

As stated in our engagement letter dated November 27, 2007, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and 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 East China, Michigan. 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 East China, Michigan'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 management.

Qualitative Aspects of Accounting Practices

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 East China, Michigan 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 transactions entered into by the Charter Township of East China, Michigan 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 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:

Management's estimate for depreciation. Management estimates based on historical data and estimated useful lives. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Management's estimate for unbilled water and sewer usages. The estimate is based on subsequent billings and historical data. We evaluated the key factors and assumptions used to develop the estimates in determining that it is reasonable in relation to the financial statements taken as a whole.

Difficulties Encountered in Performing the Audit

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

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. The following material misstatements detected as a result of audit procedures were recorded by management:

- Reclassifying of expenses between the capital projects fund and water fund
- Recording unbilled utility receivables
- Adjusting accounts payable and prepaid expenses regarding fire protection contracts
- Adjusting accumulated depreciation

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 Government 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.

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.

Management Representations

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

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 the relevant facts. To our knowledge, there were not such consultations with other accountants.

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 Charter Township of East China, Michigan's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Other Audit Internal Control Communication

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

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


Certified Public Accountants

June 12, 2008

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, operational efficiency, and/or compliance with laws and regulations.

Access to the General Ledger and journal entries should be limited to the Clerk's office.

Based on discussions with management it is our understanding that all employees have access to the general ledger and the ability to post journal entries. Since the Treasurer's office deposits and maintains cash and investments they should not have the ability to post to the general ledger, other than cash receipting, and should not have the access to post journal entries. We recommend that the Township review who has access to each module and limit the access to the general ledger and journal entries by password.

Back-up of the computer system data should be maintained off-site.

Based on discussions with management it is our understanding that the Township backs-up the data files each night with the file maintained in the Township vault. In the event of a fire or other natural disaster the back-up could be damaged or lost. To increase security, we recommend that the Township maintain back-up files off-site at least monthly but preferably on a weekly basis.

Controls over fuel at the DPW location should be improved.

The Township maintains fuel for use of the Township equipment. However, employees are not required to document when fuel is used, the vehicle or equipment that is being fuel, the mileage and date, etc. We recommend that procedures be adopted requiring this type of information and that perpetual inventory records of the fuel be maintained. A physical inventory should be taken at the end of each month and compared to the perpetual inventory records.

Debt Service Fund cash and Investments should be in separate bank accounts.

The Township pools their debt service cash and investments with other funds. According to the Municipal Finance Act, debt service fund dollars should be maintained in a separate bank account. We recommend the Township begin procedures to move the appropriate money into a separate account.

Controls over the utility billing system could be improved.

During our audit, it was noted that the same employee creates billings, posts adjustments to the billing, collects payments, and has access to post journal entries. While no irregularities were noted, controls should be reviewed and improved by limiting the biller's access to post journal entries and collecting/posting payments.