

Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input checked="" type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Unit Name City of Iron Mountain	County Dickinson
Fiscal Year End 6/30/07	Opinion Date 12/13/2007	Date Audit Report Submitted to State 12/28/2007	

We affirm that:

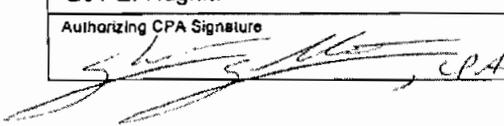
We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

- | | | |
|-----|----|--|
| YES | NO | Check each applicable box below. (See instructions for further detail.) |
|-----|----|--|
1. All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
 2. There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
 3. The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
 4. The local unit has adopted a budget for all required funds.
 5. A public hearing on the budget was held in accordance with State statute.
 6. The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
 7. The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
 8. The local unit only holds deposits/investments that comply with statutory requirements.
 9. The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
 10. There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
 11. The local unit is free of repeated comments from previous years.
 12. The audit opinion is UNQUALIFIED.
 13. The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
 14. The board or council approves all invoices prior to payment as required by charter or statute.
 15. To our knowledge, bank reconciliations that were reviewed were performed timely.

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

I, the undersigned, certify that this statement is complete and accurate in all respects.

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input checked="" type="checkbox"/>	N/A	
Certified Public Accountant (Firm Name) Anderson, Tackman & Company, PLC		Telephone Number 906-774-4300	
Street Address 201 E. Hughitt		City Iron Mountain	State Zip MI 49801
Authorizing CPA Signature 		Printed Name Shane M. Ellison, CPA	License Number 263063

CITY OF IRON MOUNTAIN

REPORT ON FINANCIAL STATEMENTS

(with additional information)

For the Year Ended June 30, 2007

CITY OF IRON MOUNTAIN

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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
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**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

(Regional Firm with Offices in Michigan and Wisconsin)

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

INDEPENDENT AUDITORS' REPORT

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Iron Mountain ("City"), Michigan, of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion 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 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 aggregate discretely component units, each major fund, and the aggregate remaining fund information of the City of Iron Mountain, Michigan, as of June 30, 2007, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 13, 2007, on our consideration of the City's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the required supplemental information identified in the table of contents are not a required part of the basic financial statements but is 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 supplemental 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 City's basic financial statements. The accompanying 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 accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, "*Audits of States, Local Governments, and Non-Profit Organizations*", and is also not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.



ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants

Iron Mountain, Michigan
December 13, 2007

MANAGEMENT DISCUSSION AND ANALYSIS (UNAUDITED)

Our discussion and analysis of the City of Iron Mountain's financial performance provides an overview of the City's financial activities for the year ended June 30, 2007. Please read it in conjunction with the City's financial statements.

FINANCIAL HIGHLIGHTS

- The City's total net assets increased \$2,271,772 or 6.6%, for the year ended June 30, 2007. The net assets of our governmental activities increased \$1,552,488 or 5.7% while the net assets of our business type activities (Water Utility and Sewer Funds) increased \$719,284 or 10.0%.
- During the year ended June 30, 2007 the City's governmental revenues exceeded expenditures by \$1,552,488. This compares to an excess of revenues over expenditures of \$1,489,660 for the year ended June 30, 2006, change of \$62,828, which was mainly the result of increased earnings on investments.
- During the year ended June 30, 2007 the City's business-type activities revenues exceeded expenses by \$719,284. This compares to an excess of revenues over expenses of \$901,367 for the year ended June 30, 2006. The decrease of \$182,083 was primarily a result of the following:

Increase in federal grants and other miscellaneous revenues	\$ 74,550
Increase in charges to customers for water and sewer services	4,817
Increase in operating expenses	(123,096)
Increase in net non-operating expenses	(96,621)
Decrease in contributions in aid of construction	(180,760)
Increase in net transfers from Capital Improvement Funds	119,027
Decrease in transfers out to General Fund	<u>20,000</u>
Total	<u>\$(182,083)</u>

- The total cost of all of the City's programs was \$8,787,872 for the year ended June 30, 2007 and \$8,426,798 for the year ended June 30, 2006, for an increase of \$361,074 or 4.3%. The increase was substantially related to increased transfers to the Health Insurance, DDA, Motor Vehicle & Equipment Funds, along with costs associated with the reassessment and the Planning and Community Development Department, along with a decrease in capital expenditures.
- The general fund reported an excess of expenditures over revenues for the year ended June 30, 2007 of \$(308,189), \$74,707 less than the budgeted excess of \$(382,896). The excess of \$(308,189) was 6.6% of general fund revenues of \$4,680,647.

USING THIS REPORT

This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. For governmental activities, these statements report how these services were financed in the short term as well as what remains for future spending. Fund financial statements also report the City's operations in more detail than the government-wide statements by providing information about the City's most significant funds. The remaining statement provides financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside the government.

Reporting the City as a Whole

One of the most important questions asked about the City's finances is "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information about the City as a whole and about its activities in a way that helps answer this question... These statements include *all* assets and liabilities using the *accrual basis of accounting*, which is similar to the accounting used by most private-sector companies. All of the current year's revenues and expenses are taken into account regardless of when cash is received or paid. These two statements report the City's *net assets* and changes in them. You can think of the City's net assets – the difference between assets and liabilities – as one way to measure the City's financial health, or *financial position*. Over time, *increases or decreases* in the City's net assets are one indicator of whether its *financial health* is improving or deteriorating. You will need to consider other non-financial factors, however, such as changes in the City's property tax base and the condition of the City's roads, to assess the *overall financial health* of the City.

In the Statement of Net Assets and the Statement of Activities, we divide the City into two kinds of activities:

- Government activities – Most of the City's basic services are reported here including public safety, public works, parks and recreation and general administration. Property taxes, franchise fees, state shared revenues, and state and federal grants fund most of these activities.
- Business-type activities – The City charges a fee to customers to help it cover all or most of the costs of certain services it provides. The City's Water and Sewer Departments are reported here.

Reporting the City's Most Significant Funds

The fund financial statements provide detailed information on the most significant funds – not the City as a whole. Some funds are required to be established by State law or by bond covenants. However, the City Council establishes many other funds to help it control and manage money for particular purposes or to show that it is meeting legal requirements for certain taxes, grants, and other money. The City's two kinds of funds – *governmental* and *proprietary* – use different accounting methods.

- *Government funds* – Most of the City's services are reported in governmental funds which focus on how money flows into and out of those funds and the balances left at year-end that are available for spending. These funds are reported using an accounting method called *modified accrual* accounting, which measures cash and all other financial assets that can be readily converted into cash. The governmental fund statements provide a detailed *short-term view* of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs. We describe the relationship (or differences) between governmental *activities* (reported in the Statement of Net Assets and Statement of Activities) and governmental *funds* in a reconciliation which follows the fund financial statements.
- *Proprietary funds* – When the City charges customers for the services it provides – whether to outside customers or to other units of the City – these services are generally reported in proprietary funds. Proprietary funds are reported in the same way that all activities are reported in the Statement of Net Assets and the Statement of Activities. In fact, the City's

Enterprise funds (a component of proprietary funds) are the same as the business-type activities we report in the government-wide statements but provide more detail and additional information, such as cash flows, for proprietary funds. We use internal service funds (the other component of proprietary funds) to report activities that provide supplies and services for the City's other programs and activities – such as the City's Equipment Fund.

The City as a Trustee

The City is the trustee, *or fiduciary*, of tax receipts that are collected for other agencies and held for periodic payment to those agencies. The City's fiduciary activities are reported in a separate Statement of Fiduciary Net Assets. We exclude these funds from the City's other financial statements because the City cannot use these assets to finance its operations. The City is responsible for ensuring that the assets reported in these funds are used for their intended purposes.

The City as a Whole

The City's combined net assets at June 30, 2007 increased \$2,271,772 from June 30, 2006 as shown in Table 1.

Table 1
Net Assets

	Governmental Activities		Business-Type Activities		Totals	
	2007	2006	2007	2006	2007	2006
Current and other assets	\$ 6,836,963	\$ 6,672,905	\$ 2,244,651	\$ 1,967,887	\$ 9,081,614	\$ 8,640,792
Capital assets (net)	<u>25,604,106</u>	<u>24,504,948</u>	<u>10,465,969</u>	<u>10,015,387</u>	<u>36,070,075</u>	<u>34,520,335</u>
Total assets	<u>32,441,069</u>	<u>31,177,853</u>	<u>12,710,620</u>	<u>11,983,274</u>	<u>45,151,689</u>	<u>43,161,127</u>
Long-term debt outstanding	(2,852,839)	(3,320,932)	(4,480,000)	(4,565,000)	(7,332,839)	(7,885,932)
Other liabilities	<u>(590,966)</u>	<u>(412,145)</u>	<u>(339,131)</u>	<u>(246,069)</u>	<u>(930,097)</u>	<u>(658,214)</u>
Total liabilities	<u>(3,443,805)</u>	<u>(3,733,077)</u>	<u>(4,819,131)</u>	<u>(4,811,069)</u>	<u>(8,262,936)</u>	<u>(8,544,146)</u>
Net Assets:						
Invested in capital assets, net of related debt	22,771,473	21,203,086	5,985,969	5,450,387	28,757,442	26,653,473
Restricted for debt service	1,680,718	1,588,644	-	-	1,680,718	1,588,644
Unrestricted	<u>4,545,073</u>	<u>4,653,046</u>	<u>1,905,520</u>	<u>1,721,818</u>	<u>6,450,593</u>	<u>6,374,864</u>
Total net assets	<u>\$ 28,997,264</u>	<u>\$ 27,444,776</u>	<u>\$ 7,891,489</u>	<u>\$ 7,172,205</u>	<u>\$ 36,888,753</u>	<u>\$ 34,616,981</u>

Net assets of the City's governmental activities stood at \$28,997,264. Unrestricted net assets – the part of net assets that could be used to finance day-to-day activities without constraints established by debt covenants, enabling legislation, or other legal requirements stood at \$4,545,073.

Net assets of the business-type activities stood at \$7,891,489. Unrestricted net business assets were \$1,905,520. In general, the business-type activities unrestricted net assets should be used to finance operations of our Water and Sewer Funds.

Table 2 outlines changes in the City's net assets.

Table 2
Changes in Net Assets

	Governmental Activites		Business-Type Activites		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Program revenues:						
Charges for services	\$ 627,573	\$ 592,101	\$ 1,528,794	\$ 1,523,977	\$ 2,156,367	\$ 2,116,078
Operating grants	85,551	-	-	-	85,551	-
Capital grants	949,625	-	70,200	-	-	-
General revenues:						
Property taxes	4,957,223	5,333,802	-	-	4,957,223	5,333,802
State revenue sharing	1,899,870	2,447,445	-	-	1,899,870	2,447,445
Unrestricted grants	41,781	40,431	-	-	41,781	40,431
Unrestricted investment earnings	352,849	230,583	83,580	36,336	436,429	266,919
Miscellaneous	96,559	69,061	32,483	30,395	129,042	99,456
Total revenues	<u>9,011,031</u>	<u>8,713,423</u>	<u>1,715,057</u>	<u>1,590,708</u>	<u>10,726,088</u>	<u>10,304,131</u>
Program Expenses:						
General government	1,222,384	974,029	-	-	1,222,384	974,029
Public safety	2,330,053	2,350,041	-	-	2,330,053	2,350,041
Parks and recreation	129,464	128,831	-	-	129,464	128,831
Cemetery	165,776	169,659	-	-	165,776	169,659
General public works	3,313,627	3,493,985	-	-	3,313,627	3,493,985
Interest on long-term debt	243,023	191,407	-	-	243,023	191,407
Water	-	-	1,161,403	1,014,686	1,161,403	1,014,686
Sewer	-	-	222,142	104,160	222,142	104,160
Total expenses	<u>7,404,327</u>	<u>7,307,952</u>	<u>1,383,545</u>	<u>1,118,846</u>	<u>8,787,872</u>	<u>8,426,798</u>
Excess before transfers and contributions in aid of construction						
	1,606,704	1,405,471	331,512	471,862	1,938,216	1,877,333
Contributions in aid of construction						
	-	-	312,958	493,718	312,958	493,718
Transfers	<u>(54,216)</u>	<u>84,189</u>	<u>74,814</u>	<u>(64,213)</u>	<u>20,598</u>	<u>19,976</u>
Increase in net assets	<u>1,552,488</u>	<u>1,489,660</u>	<u>719,284</u>	<u>901,367</u>	<u>2,271,772</u>	<u>2,391,027</u>
Net assets – beginning	<u>27,444,776</u>	<u>25,955,116</u>	<u>7,172,205</u>	<u>6,270,838</u>	<u>34,616,981</u>	<u>32,225,954</u>
Net assets – ending	<u>\$ 28,997,264</u>	<u>\$ 27,444,776</u>	<u>\$ 7,891,489</u>	<u>\$ 7,172,205</u>	<u>\$ 36,888,753</u>	<u>\$ 34,616,981</u>

Governmental Activities

Table 3 presents the cost of each of the City’s five largest activities – Public Safety, Cemetery, Parks and Recreation, General Public Works, and General Government – as well as each program’s net cost (total cost less revenues generated by the activities). The net cost shows the financial burden that each function placed on the taxpayers.

**Table 3
Governmental Activities**

	Total Cost of Services		Net Cost of Services	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Public safety	\$ 2,330,053	\$ 2,350,041	\$ 2,327,691	\$ 2,347,679
Cemetery	165,776	169,659	69,447	84,460
Parks and recreations	129,464	128,831	35,178	128,831
General public works	3,313,627	3,493,985	2,279,587	3,326,065
General government	<u>1,222,384</u>	<u>974,029</u>	<u>786,652</u>	<u>637,409</u>
Totals	<u>\$ 7,161,304</u>	<u>\$ 7,116,545</u>	<u>\$ 5,498,555</u>	<u>\$ 6,524,444</u>

Business-type Activities

Revenues for the City’s business-type activity totaled \$1,528,794 for fiscal year 2007 and \$1,523,977 for fiscal year 2006. The increase is due to the increased sewer rates charged to customers, coupled with a decrease in water usage sales.

THE CITY’S FUNDS

At June 30, 2007 the City’s governmental funds reported a combined fund balance of \$6,178,211, an increase of \$4,264 from \$6,173,947 at June 30, 2006.

General Fund Budgetary Highlights

Over the course of the year, the City Council revised the City general fund budget one time. The purpose of this revision was to recognize major changes in revenue or expenses. The major revision included:

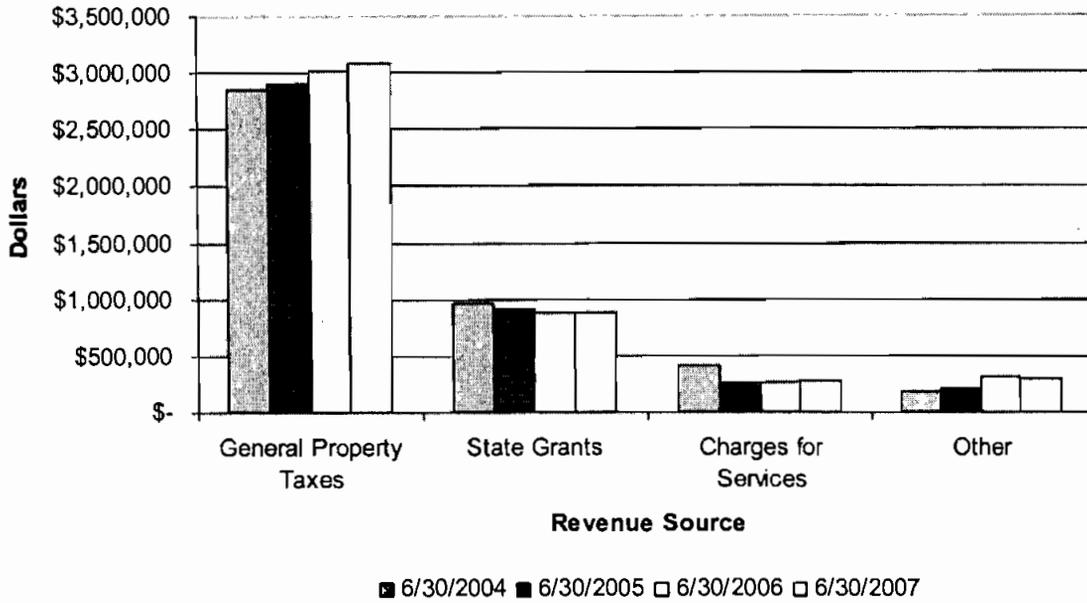
- 1) A decrease in government revenues of \$88,000 and an increase in government expenditures of \$325,534 resulting in a net budgeted decrease of \$413,534.

Actual charges to expenditures were \$27,003 less than the final budget and revenues were \$65,144 more than the final budget. The net variation to budget was an income of \$74,707.

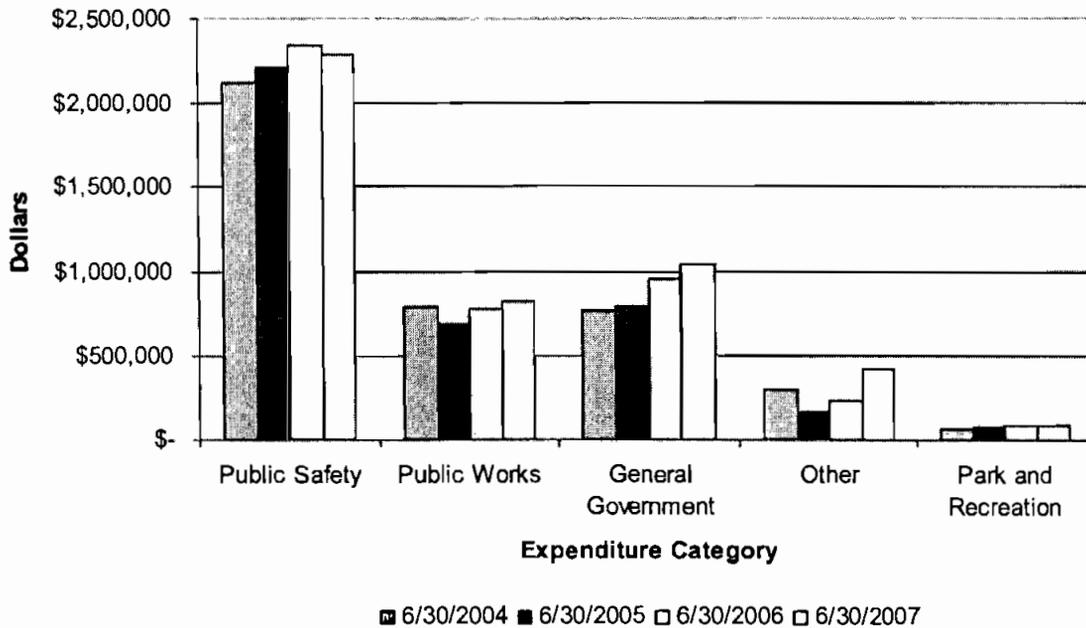
GENERAL FUND REVENUES AND EXPENDITURES

The City's General Fund revenues and expenditures for the years ended June 31, 2004, 2005, 2006 and 2007 are summarized in the following bar graphs:

General Fund Revenues



General Fund Expenditures



GENERAL FUND REVENUES

The graph once again vividly shows the City's continuing reliance on general property taxes to fund general governmental operations. This is so even as the City has lowered millage for the last three consecutive fiscal years. The City will continue to examine this revenue source, reduce millage where and when appropriate given the general and steady appreciation of property values in the City and the continued erosion of State-shared revenues. State grants have declined slightly due to last years projects being completed and grants received in the current year not being as large. However, the City continues to aggressively pursue grant funding in all areas of operations and from all sources. That effort has netted approximately \$3.0 million in grants over the past three years. Even though the City has increased fees for services, that area of general revenue has remained stable. This is a revenue source that the City will continue to examine in future fiscal years. It is important that the City diversify its revenue sources so as not to become reliant on any one source. By finding and/or developing new sources of revenue, we become less dependent on general property taxes, are able to offset expenditures in general governmental areas and create diversification. The City will, on an annual basis, continue to examine charges for services to make sure these fees/charges are keeping pace with the cost of providing that service and general inflationary pressures. The City needs to continue to aggressively pursue economic development and expansion of the tax base both locally and regionally to lessen pressure on general taxes. Increasing tax base by existing business expansion and new businesses locating in the City continues to be an effort we aggressively pursue. Expanding tax base increases market value, increases equalized valuation for tax purposes and allows for millage reductions. TIFA will continue to play a major role in economic development, as both an investor and driver of projects.

GENERAL FUND EXPENDITURES

This graph continues to show public safety expenditures increasing. Some of those expenditures can be considered as first year costs to change the way the City provides that service. The City continues to pursue reducing those costs while providing efficient and effective service. The efforts to change the environment of public safety continue and over the next several years the City will continue to pursue a regional and collaborative approach to providing this service so costs can be reduced. The City recently was designated a Center for Regional Excellence by the Governor's Office and pursuing a regional approach to public safety is one of the areas of analysis. Other general governmental costs have increased slightly, due to renewed and continued emphasis on technology enhancements, infrastructure improvements and general administrative changes. The City will continue to place emphasis on technology so internally we are more efficient and provide a high level of service to the residents. Expansion of services for parks and recreation is a goal over the next several years. Enhancements to parks and park equipment, continued work on the north side field, expanding a non-motorized trail system, improvements to the boat launch are all areas of future expenditure. It is the goal to be a balanced City, in fact, to be a City continually focused on the enhancement of quality of life services. We will continue to examine all avenues to reduce costs, provide better balance and enhance the commitment to our residents. Additionally, the City will examine, where appropriate, to invest with the long term idea to save dollars.

CAPITAL ASSET AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2007 the City had \$57,822,730 invested in a variety of capital assets including equipment, buildings, parks, roads, and water systems as follows:

Capital Assets at Year-End

	Governmental Activities		Business-Type Activities		Totals	
	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>	<u>2007</u>	<u>2006</u>
Land	\$ 2,822,831	\$ 2,822,831	\$ 43,236	\$ 43,236	\$ 2,866,067	\$ 2,866,067
Land improvements	1,857,117	1,409,236	-	-	1,857,117	1,409,236
Buildings	4,449,234	4,277,665	-	-	4,449,234	4,277,665
Equipment	1,622,954	1,597,813	182,036	248,446	1,804,990	1,846,259
Vehicles	2,275,499	2,249,166	-	-	2,275,499	2,249,166
Infrastructure	<u>32,189,069</u>	<u>30,755,132</u>	<u>12,380,753</u>	<u>11,688,576</u>	<u>44,569,822</u>	<u>42,443,708</u>
Total cost	45,216,704	43,111,843	12,606,025	11,980,258	57,822,729	55,092,101
Less: accumulated depreciation	<u>(19,612,598)</u>	<u>(18,606,895)</u>	<u>(2,140,056)</u>	<u>(1,964,871)</u>	<u>(21,752,654)</u>	<u>(20,571,766)</u>
NET CAPITAL ASSETS	<u>\$ 25,604,106</u>	<u>\$ 24,504,948</u>	<u>\$ 10,465,969</u>	<u>\$ 10,015,387</u>	<u>\$ 36,070,075</u>	<u>\$ 34,520,335</u>

Debt

At the end of fiscal year 2007 City had \$2,832,633 in bonds and notes outstanding as depicted in Table 5 below, a reduction of \$469,229 from the outstanding amount of \$3,301,862 at June 30, 2006.

**Table 5
Outstanding Debt at Year-End**

	Governmental Activities	
	<u>2007</u>	<u>2006</u>
T.I.F.A. Bonds	\$ 2,240,000	\$ 2,750,000
Installment loans	<u>592,633</u>	<u>551,862</u>
Total	<u>\$ 2,832,633</u>	<u>\$ 3,301,862</u>

ECONOMIC FACTORS AND NEXT YEAR'S FISCAL OUTLOOK

The City's elected and appointed officials diligently examine all sources of revenue when setting tax rates, fees and charges for the year. Not only do we look internally, but we examine issues at the state and federal levels that may have an impact on City finances. It is that analysis that has allowed the City to reduce millage each year for the past three years. Tax base has expanded, jobs have been created, grant funds have been secured, our lobbying efforts via the Michigan Municipal League have resulted in no net loss of state shared revenues from 2006 to 2007, all going to enhance fiscal stability and increase fiscal health.

The year ending June 30, 2007, saw the Systems Control project completed. It also saw the start of a million dollar project to provide a new road and expanded utilities on Trader's Mine Road to serve the new Champion-Gundlach office complex. Both of these projects will increase the City's tax base and create new jobs. Bay West College, begun this year will be complete by September, 2007, being the new, permanent home to as many as 1,200 students. New businesses have already sprung up across the street from the campus. Additionally, Champion has petitioned the State of Michigan to annex the remainder of their property immediately north of the campus into the City to receive City utilities. The City has also entered into discussions with Breitung Township on the development and adoption of a 425 conditional property transfer document. This effort is historic and will significantly improve economic development activity. These improvements will add tax base to the City, provide our residents the immediate benefits of higher education, new jobs and enhanced commercial and office space alternatives. Additionally, the capital improvements made will allow for expansion and extension of those assets to benefit the City.

The year ending June 30, 2007, saw significant street rehabilitation undertaken, as well as improvements to the water and sewer systems. These improvements will be continued into FY 2007-2008 and beyond. It is the goal of the City to allocate funds each year for the rehabilitation of both major and local streets. The City has received grant fund for some of these projects and will receive approximately \$430,000 in early 2008 for projects to start in the spring. Infrastructure improvements are high on the list of rehabilitation projects for the City. The City has received an MDOT grant of \$400,000 and \$100,000 in jobs today funds for a major street realignment and utility expansion project in 2008.

The City, along with the DDA and the Main Street Program will continue efforts to revitalize the City's downtown. Using the existing Economic and Marketing Analysis we will continue to pursue business expansion, new businesses locating here and an expansion of downtown residential living. It is important that our downtown not only be a commercial location but a residential one as well. Additionally, given that the City is now a Main Street City (designated by the State of Michigan in July, 2006), the City will be able to take advantage of approximately \$300,000 of State of Michigan and National Main Street services to improve, enhance and revitalize the downtown. The redesign of buildings, improved zoning and signage, historic analyses of buildings, etc. are just a portion of the services the City and individual businesses will receive, which would not be affordable otherwise.

Strides have been made this past year in the economic climate in the City. As the City moves into 2007 and 2008 and beyond, the recent successes will lead to additional ones. The City is seeing that now with new hotel being built, several new commercial facilities underway, existing buildings being rehabilitated and new residential development taking place. The City will build upon the successes of 2006-2007. Low interest rates, low inflationary pressure will assist in this growth and the residents of the City will be the beneficiary.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designated to provide our citizens, taxpayers and customers, and investors and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the City Manager's office at Iron Mountain, 501 S. Stephenson Avenue, Iron Mountain, MI 49801, (906) 774-8530.

CITY OF IRON MOUNTAIN

STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
ASSETS:				
Current assets:				
Cash and equivalents - unrestricted	\$ 1,914,585	\$ 534,939	\$ 2,449,524	\$ 105,109
Cash and equivalents - restricted	-	564,559	564,559	-
Investments - unrestricted	4,116,819	695,692	4,812,511	277,057
Receivables:				
Taxes	23,419	-	23,419	-
Accounts	501,501	259,986	761,487	7,688
Interest & dividends	38,923	9,776	48,699	-
Due from other funds	45,127	-	45,127	-
Inventory	140,695	81,768	222,463	382
Deferred charges	-	95,216	95,216	-
Prepaid expenses	55,894	2,715	58,609	14,422
Total current assets	<u>6,836,963</u>	<u>2,244,651</u>	<u>9,081,614</u>	<u>404,658</u>
Noncurrent assets:				
Capital assets	45,216,705	12,606,025	57,822,730	5,871,970
Accumulated depreciation	<u>(19,612,599)</u>	<u>(2,140,056)</u>	<u>(21,752,655)</u>	<u>(3,213,117)</u>
Total noncurrent assets	<u>25,604,106</u>	<u>10,465,969</u>	<u>36,070,075</u>	<u>2,658,853</u>
TOTAL ASSETS	<u>32,441,069</u>	<u>12,710,620</u>	<u>45,151,689</u>	<u>3,063,511</u>
LIABILITIES:				
Current liabilities:				
Accounts payable	405,002	126,387	531,389	7,756
Accrued wages	40,007	9,330	49,337	-
Accrued other	12,988	3,865	16,853	25,002
Accrued interest	21,487	69,658	91,145	-
Deferred revenue	59,668	-	59,668	-
Due to other funds	-	43,394	43,394	-
Due to other governmental units	52,389	31,534	83,923	-
Other liabilities	(575)	54,963	54,388	-
Compensated absences	6,513	-	6,513	8,037
Bonds payable	540,000	90,000	630,000	-
Notes payable	101,242	-	101,242	-
Total current liabilities	<u>1,238,721</u>	<u>429,131</u>	<u>1,667,852</u>	<u>40,795</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN
STATEMENT OF NET ASSETS

June 30, 2007

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>	<u>Component Unit</u>
Noncurrent liabilities:				
Compensated absences	13,693	-	13,693	9,787
Bonds payable	1,700,000	4,390,000	6,090,000	-
Notes payable	491,391	-	491,391	-
Total noncurrent liabilities	<u>2,205,084</u>	<u>4,390,000</u>	<u>6,595,084</u>	<u>9,787</u>
TOTAL LIABILITIES	<u>3,443,805</u>	<u>4,819,131</u>	<u>8,262,936</u>	<u>50,582</u>
NET ASSETS:				
Invested in capital assets, net of related debt	22,771,473	5,985,969	28,757,442	2,658,853
Restricted for:				
Debt service	1,680,718	-	1,680,718	-
Unrestricted	<u>4,545,073</u>	<u>1,905,520</u>	<u>6,450,593</u>	<u>354,076</u>
TOTAL NET ASSETS	<u>\$ 28,997,264</u>	<u>\$ 7,891,489</u>	<u>\$ 36,888,753</u>	<u>\$ 3,012,929</u>

**ANDERSON, TACKMAN
 & COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS



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

CITY OF IRON MOUNTAIN

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2007

	Program Revenue			Net (Expense) Revenue and Changes in Net Assets			Component Unit	
	Expenses	Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Primary Government			
					Governmental Activities	Business-Type Activities		Total
FUNCTIONS/PROGRAMS								
PRIMARY GOVERNMENT:								
Governmental Activities:								
General government	\$ 1,222,384	\$ 358,022	\$ 77,710	\$ -	\$ (786,652)	\$ -	\$ (786,652)	
Public safety	2,330,053	2,362	-	-	(2,327,691)	-	(2,327,691)	
Parks and recreation	129,464	-	-	94,286	(35,178)	-	(35,178)	
Cemetery	165,776	96,329	-	-	(69,447)	-	(69,447)	
General public works	3,313,627	170,860	7,841	855,339	(2,279,587)	-	(2,279,587)	
Interest on long-term debt	243,023	-	-	-	(243,023)	-	(243,023)	
Total governmental activities	7,404,327	627,573	85,551	949,625	(5,741,578)	-	(5,741,578)	
Business-type activities:								
Water utility	1,161,403	1,352,441	-	-	-	191,038	191,038	
Sewer	222,142	176,353	-	70,200	-	24,411	24,411	
Total business-type activities	1,383,545	1,528,794	-	70,200	-	215,449	215,449	
Component Unit:								
Public Housing	596,706	211,196	169,222	126,334	-	-	(89,954)	
TOTAL PRIMARY GOVERNMENT	\$ 9,384,578	\$ 2,367,563	\$ 2,54,773	\$ 1,146,159	\$ (5,741,578)	\$ 215,449	\$ (5,526,129)	
General revenues:								
Property taxes					\$ 4,957,223	\$ -	\$ 4,957,223	
State revenue sharing					1,899,870	-	1,899,870	
Grants and contributions not restricted to specific programs					41,781	-	41,781	
Unrestricted investment earnings					352,849	83,580	436,429	
Contributions in aid of construction					-	312,958	312,958	
Other					96,559	32,483	129,042	
Transfers					(54,216)	74,814	20,598	
Total general revenues and transfers					7,294,066	503,835	7,797,901	
Changes in net assets					1,552,488	719,284	2,271,772	
Net assets, beginning of year					27,444,776	7,172,205	34,616,981	
Net assets, end of year					\$ 28,997,264	\$ 7,891,489	\$ 36,888,753	

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

CITY OF IRON MOUNTAIN

**BALANCE SHEET
GOVERNMENTAL FUNDS**

June 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>T.I.F.A. Debt Service</u>
ASSETS:				
Cash and equivalents	\$ 270,725	\$ 375,759	\$ 113,738	\$ 39,891
Investments	400,000	227,160	-	1,628,520
Receivables:				
Taxes	14,442	-	-	-
Accounts	299,648	73,927	33,467	-
Interest & dividends	4,479	689	-	13,223
Due from other funds	50,806	-	-	-
Inventory	39,052	-	-	-
Prepaid expenses	50,646	1,898	1,710	-
TOTAL ASSETS	<u>\$ 1,129,798</u>	<u>\$ 679,433</u>	<u>\$ 148,915</u>	<u>\$ 1,681,634</u>
LIABILITIES:				
Accounts payable	\$ 115,000	\$ 121,000	\$ 52,672	\$ -
Accrued wages	35,435	1,055	553	-
Other accrued expenses	10,338	682	343	-
Deferred revenue	-	4,272	-	916
Due to other funds	-	4,923	1,255	-
Due to other governmental units	52,389	-	-	-
Other liabilities	(575)	-	-	-
TOTAL LIABILITIES	<u>212,587</u>	<u>131,932</u>	<u>54,823</u>	<u>916</u>
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	-	-	1,680,718
Unreserved:				
Designated	63,397	-	-	-
Undesignated	853,814	547,501	94,092	-
TOTAL FUND BALANCE AND OTHER CREDITS	<u>917,211</u>	<u>547,501</u>	<u>94,092</u>	<u>1,680,718</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 1,129,798</u>	<u>\$ 679,433</u>	<u>\$ 148,915</u>	<u>\$ 1,681,634</u>


**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS

Tax Increment Financing Authority	Nonmajor Governmental Funds	Total Governmental Funds
\$ 482,811	\$ 626,302	\$ 1,909,226
1,562,859	298,280	4,116,819
8,381	596	23,419
69,000	5,010	481,052
15,187	5,345	38,923
1,726	-	52,532
-	-	39,052
-	-	54,254
<u>\$ 2,139,964</u>	<u>\$ 935,533</u>	<u>\$ 6,715,277</u>
\$ 72,476	\$ 7,793	\$ 368,941
-	500	37,543
-	305	11,668
54,481	-	59,669
-	1,253	7,431
-	-	52,389
-	-	(575)
<u>126,957</u>	<u>9,851</u>	<u>537,066</u>
2,013,007	74,021	3,767,746
-	851,661	915,058
-	-	1,495,407
<u>2,013,007</u>	<u>925,682</u>	<u>6,178,211</u>
<u>\$ 2,139,964</u>	<u>\$ 935,533</u>	<u>\$ 6,715,277</u>

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

CITY OF IRON MOUNTAIN

**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET ASSETS**

June 30, 2007

Total fund balances for governmental funds	\$ 6,178,211
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Total net assets reported for governmental activities in the statement of net assets is different because:

Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	24,425,235
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An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The assets and liabilities of the internal service fund are included in governmental activities in the statement of net assets.	1,268,142
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Long-term liabilities applicable to the City's governmental activities are not due and payable in the current period and accordingly are not reported as fund liabilities. Interest on long-term debt is not accrued in governmental funds, but rather is recognized as an expenditure when due. All liabilities, both current and long-term, are reported in the statement of net assets.

Accrued interest on long-term debt	\$ (21,485)	
Bonds payable	(2,240,000)	
Notes payable	(592,633)	
Compensated absences	<u>(20,206)</u>	<u>(2,874,324)</u>

Total net assets of governmental activities	<u>\$28,997,264</u>
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ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

**STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2007

	<u>General</u>	<u>Major Street</u>	<u>Local Street</u>	<u>T.I.F.A. Debt Service</u>
REVENUES:				
General property taxes	\$ 3,091,558	\$ -	\$ -	\$ -
Licenses and permits	15,574	-	-	-
State grants	875,007	588,199	160,042	-
Federal grants	15,455	229,021	225,106	-
Charges for services	275,740	-	-	-
Local sources	40,741	-	-	-
Fines and forfeits	18,673	-	-	-
Interest and rents	102,679	25,340	10,834	66,725
Unrealized gain(loss) on investments	4,823	3,690	243	25,749
Other	96,515	3,139	7,206	-
TOTAL REVENUES	<u>4,536,765</u>	<u>849,389</u>	<u>403,431</u>	<u>92,474</u>
EXPENDITURES:				
Legislative	14,220	-	-	-
General government	1,040,670	-	-	-
Public safety	2,285,946	-	-	-
Public works	822,388	761,580	739,511	-
Park and recreation	91,702	-	-	-
Other	381,735	9,770	8,879	-
Debt service	27,891	-	-	642,700
TOTAL EXPENDITURES	<u>4,664,552</u>	<u>771,350</u>	<u>748,390</u>	<u>642,700</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>(127,787)</u>	<u>78,039</u>	<u>(344,959)</u>	<u>(550,226)</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	72,598	-	175,000	642,300
Operating transfers out	<u>(253,000)</u>	<u>(175,000)</u>	<u>-</u>	<u>-</u>
TOTAL OTHER FINANCING SOURCES (USES)	<u>(180,402)</u>	<u>(175,000)</u>	<u>175,000</u>	<u>642,300</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	<u>(308,189)</u>	<u>(96,961)</u>	<u>(169,959)</u>	<u>92,074</u>
FUND BALANCE, JULY 1	<u>1,225,400</u>	<u>644,462</u>	<u>264,051</u>	<u>1,588,644</u>
FUND BALANCE, JUNE 30	<u>\$ 917,211</u>	<u>\$ 547,501</u>	<u>\$ 94,092</u>	<u>\$ 1,680,718</u>


**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS

<u>Tax Increment Financing Authority</u>	<u>Nonmajor Governmental Funds</u>	<u>Total Governmental Funds</u>
\$ 1,950,162	\$ 36,654	\$ 5,078,374
-	-	15,574
-	5,011	1,628,259
769,740	89,276	1,328,598
-	-	275,740
-	-	40,741
-	-	18,673
101,415	48,489	355,482
(14,944)	3,457	23,018
-	30,154	137,014
<u>2,806,373</u>	<u>213,041</u>	<u>8,901,473</u>
-	-	14,220
-	49,601	1,090,271
-	-	2,285,946
1,554,924	23,948	3,902,351
-	243,528	335,230
-	-	400,384
-	-	670,591
<u>1,554,924</u>	<u>317,077</u>	<u>8,698,993</u>
<u>1,251,449</u>	<u>(104,036)</u>	<u>202,480</u>
-	173,000	1,062,898
<u>(694,300)</u>	<u>(138,814)</u>	<u>(1,261,114)</u>
<u>(694,300)</u>	<u>34,186</u>	<u>(198,216)</u>
557,149	(69,850)	4,264
<u>1,455,858</u>	<u>995,532</u>	<u>6,173,947</u>
<u>\$ 2,013,007</u>	<u>\$ 925,682</u>	<u>\$ 6,178,211</u>

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

CITY OF IRON MOUNTAIN

**RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF ACTIVITIES**
For the Year Ended June 30, 2007

Net changes in fund balances – total governmental funds	\$	4,264	
The changes in net assets reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is capitalized and allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay \$2,516,196 exceeded depreciation expense \$1,432,554.			
			1,083,642
Undepreciated balance of retired fixed assets.			(451)
An internal service fund is used by the City to charge the cost of equipment usage to individual departments of the City which are not accounted for as an enterprise activity. The net revenue (expense) of the internal service fund is reported with governmental activities.			
			(7,726)
Bond proceeds are reported as financing sources in governmental funds and thus contribute to the change in fund balance. In the statement of net assets, however, issuing debt increases long-term liabilities and does not affect the statement of activities. Similarly, repayment of principal is an expenditure in the governmental funds but reduces the liability in the statement of net assets.			
New debt	\$	(129,500)	
Principal repayments:			
Bond principal		510,000	
Note principal		<u>88,729</u>	469,229
Under the modified accrual basis of accounting used in governmental funds, expenditures are not recognized for transactions that are not normally paid with expendable available financial resources. In the statement of activities, however, which is presented on the accrual basis, expenses and liabilities are reported regardless of when financial resources are available. In addition, interest on long-term debt is not recognized under the modified accrual basis of accounting until due, rather than as it accrues. This adjustment combines the following net changes:			
Compensated absences	\$	(1,136)	
Accrued interest on bonds		<u>4,666</u>	<u>3,530</u>
Changes in net assets of governmental activities			\$ <u>1,552,488</u>



CITY OF IRON MOUNTAIN

**STATEMENT OF NET ASSETS
PROPRIETARY FUNDS**

June 30, 2007

	Enterprise Funds		
	Water Utility	Sewer Fund	Total
ASSETS:			
Current assets:			
Cash and equivalents - unrestricted	\$ 525,347	\$ 9,592	\$ 534,939
Cash and equivalents - restricted	564,559	-	564,559
Investments - unrestricted	695,692	-	695,692
Receivables	237,988	31,774	269,762
Due from other funds	-	96,425	96,425
Inventory	81,768	-	81,768
Deferred charges	95,216	-	95,216
Prepaid expenses	2,335	380	2,715
Total current assets	2,202,905	138,171	2,341,076
Noncurrent assets:			
Fixed assets:			
Land	43,236	-	43,236
Water system in service	12,187,084	-	12,187,084
Sanitary sewer system	-	193,669	193,669
Vehicles	-	-	-
Equipment	182,036	-	182,036
Less: accumulated depreciation	(2,132,829)	(7,227)	(2,140,056)
Net fixed assets	10,279,527	186,442	10,465,969
TOTAL ASSETS	12,482,432	324,613	12,807,045

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



Internal Service Fund	
\$	5,359
	-
	-
	20,449
	25
	101,643
	-
	1,640
	<u>129,116</u>
	-
	-
	-
	2,275,499
	820,603
	<u>(1,917,232)</u>
	<u>1,178,870</u>
	<u>1,307,986</u>

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

CITY OF IRON MOUNTAIN
STATEMENT OF NET ASSETS
PROPRIETARY FUNDS

June 30, 2007

	Enterprise Funds		Total
	Water Utility	Sewer Fund	
LIABILITIES:			
Current liabilities (payable from current assets):			
Accounts payable	86,815	39,572	126,387
Accrued wages	9,012	318	9,330
Other accrued expenses	73,283	240	73,523
Due to other funds	139,819	-	139,819
Due to other governmental units	2,386	29,148	31,534
Bonds payable	-	-	-
Total current liabilities (payable from current assets)	311,315	69,278	380,593
Current liabilities (payable from restricted assets):			
Customer deposits	54,963	-	54,963
Long-term liabilities:			
Bonds payable	4,480,000	-	4,480,000
TOTAL LIABILITIES	4,846,278	69,278	4,915,556
NET ASSETS:			
Invested in capital assets, net of related debt	5,799,527	186,442	5,985,969
Unrestricted	1,836,627	68,893	1,905,520
TOTAL NET ASSETS	\$ 7,636,154	\$ 255,335	\$ 7,891,489



Internal Service Fund
<hr/>
36,061
2,463
1,320
-
-
-
<hr/>
39,844
<hr/>
-
<hr/>
-
<hr/>
39,844
<hr/>
1,178,870
89,272
<hr/>
<u>\$ 1,268,142</u>

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

CITY OF IRON MOUNTAIN

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2007

	Enterprise Funds		Total
	Water Utility	Sewer Fund	
OPERATING REVENUES:			
Charges for services	\$ 1,352,441	\$ 176,353	\$ 1,528,794
Rental income	-	-	-
Federal grants	-	70,200	70,200
Other	24,206	8,277	32,483
TOTAL OPERATING REVENUES	1,376,647	254,830	1,631,477
OPERATING EXPENSES:			
Production	84,457	-	84,457
Distribution	256,896	217,227	474,123
Administration	260,167	-	260,167
Collection	97,802	-	97,802
Depreciation	170,271	4,915	175,186
Personnel	-	-	-
Supplies	-	-	-
Other services and charges	75,495	-	75,495
TOTAL OPERATING EXPENSES	945,088	222,142	1,167,230
OPERATING INCOME (LOSS)	431,559	32,688	464,247
NON-OPERATING REVENUES (EXPENSES):			
Contributions in aid of construction:			
TIFA	252,958	60,000	312,958
Interest and rents	82,051	(1,809)	80,242
Unrealized gain (loss)	3,338	-	3,338
Deferred charge expense	(3,527)	-	(3,527)
Bond interest expense and fees	(212,788)	-	(212,788)
Debt service	-	-	-
Other	-	-	-



Internal Service Fund	
\$ -	
405,141	
-	
3,125	
408,266	
-	
-	
-	
139,131	
225,486	
67,304	
171,043	
602,964	
(194,698)	
-	
570	
-	
-	
-	
(87,098)	
129,500	

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

CITY OF IRON MOUNTAIN

**STATEMENT OF REVENUES, EXPENSES
AND CHANGES IN NET ASSETS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2007

	Water Utility	Enterprise Funds Sewer Fund	Total
TOTAL NON-OPERATING REVENUES (EXPENSES)	<u>122,032</u>	<u>58,191</u>	<u>180,223</u>
Income (loss) before transfers and contributions	<u>553,591</u>	<u>90,879</u>	<u>644,470</u>
OPERATING TRANSFERS:			
Operating transfers in:			
General Fund	-	-	-
Water Capital Improvement Fund	80,814	-	80,814
Capital Improvement Fund	-	58,000	58,000
Operating transfers out:			
Water Capital Improvement Fund	<u>(64,000)</u>	<u>-</u>	<u>(64,000)</u>
TOTAL TRANSFERS	<u>16,814</u>	<u>58,000</u>	<u>74,814</u>
Change in net assets	570,405	148,879	719,284
NET ASSETS, BEGINNING OF YEAR	<u>7,065,749</u>	<u>106,456</u>	<u>7,172,205</u>
NET ASSETS, END OF YEAR	<u>\$ 7,636,154</u>	<u>\$ 255,335</u>	<u>\$ 7,891,489</u>



**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



Internal
Service
Fund

42,972

(151,726)

144,000

-

-

-

144,000

(7,726)

1,275,868

\$ 1,268,142

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

CITY OF IRON MOUNTAIN
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS

For the Year Ended June 30, 2007

	Water Utility	Enterprise Funds Sewer Fund
CASH FLOWS FROM OPERATING ACTIVITIES:		
Receipts from operations	\$ 1,360,281	\$ 73,369
Receipts from other operating activities	24,206	78,477
Payments for operating expenses	(111,828)	(85,730)
Payments for wages and related benefits	(553,398)	(72,261)
NET CASH PROVIDED FROM (USED)BY OPERATING ACTIVITIES	<u>719,261</u>	<u>(6,145)</u>
CASH FLOWS FROM NON-CAPITAL FINANCING ACTIVITIES:		
Transfers from other funds	27,845	58,000
Transfers to other funds	(64,000)	-
NET CASH (USED) BY PROVIDED FROM NON-CAPITAL FINANCING ACTIVITIES	<u>(36,155)</u>	<u>58,000</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES:		
Contributed capital	305,927	60,000
Proceeds from new borrowings	-	-
Repayment of loan principal	(85,000)	-
Repayment of loan interest	(212,788)	-
Acquisition of fixed assets	(498,508)	(127,259)
NET CASH (USED) BY CAPITAL AND RELATED FINANCING ACTIVITIES	<u>(490,369)</u>	<u>(67,259)</u>
CASH FLOWS FROM INVESTING ACTIVITIES:		
Investment income (expense)	76,331	(1,809)
Proceeds from investment sales	99,987	-
NET CASH PROVIDED FROM (USED) BY INVESTING ACTIVITIES	<u>176,318</u>	<u>(1,809)</u>
NET INCREASE (DECREASE) IN CASH AND EQUIVALENTS	369,055	(17,213)
CASH AND EQUIVALENTS, BEGINNING OF YEAR	<u>720,851</u>	<u>26,805</u>
CASH AND EQUIVALENTS, END OF YEAR	<u>\$ 1,089,906</u>	<u>\$ 9,592</u>



**ANDERSON, TACKMAN
 & COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS



Total	Internal Service Fund
\$ 1,433,650	\$ 414,367
102,683	3,125
(197,558)	(210,076)
<u>(625,659)</u>	<u>(241,373)</u>
713,116	(33,957)
85,845	144,000
<u>(64,000)</u>	<u>-</u>
21,845	144,000
365,927	-
-	129,500
(85,000)	(62,781)
(212,788)	(24,317)
<u>(625,767)</u>	<u>(155,100)</u>
<u>(557,628)</u>	<u>(112,698)</u>
74,522	570
<u>-</u>	<u>-</u>
174,509	570
351,842	(2,085)
747,656	7,444
<u>\$ 1,099,498</u>	<u>\$ 5,359</u>

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

CITY OF IRON MOUNTAIN

**STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS**

For the Year Ended June 30, 2007

	<u>Water Utility</u>	<u>Enterprise Funds Sewer Fund</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED FROM (USED) BY OPERATING ACTIVITIES:		
Operating income (loss)	\$ 431,559	\$ 32,688
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	170,271	4,915
Changes in assets and liabilities:		
Decrease (Increase) in receivables	2,053	(29,647)
Decrease (Increase) in due from other funds	5,787	(75,992)
Decrease (Increase) in inventory	3,257	-
Decrease (Increase) in prepaids	(664)	(163)
Increase (Decrease) in accounts payable	62,954	32,823
Increase (Decrease) in accrued wages	2,681	(1,864)
Increase (Decrease) in accrued expenses	713	(337)
Increase (Decrease) in due to other funds	73,138	2,284
Increase (Decrease) in other liabilities/deposits	(32,488)	29,148
 NET CASH PROVIDED FROM (USED) BY OPERATING ACTIVITIES	 <u>\$ 719,261</u>	 <u>\$ (6,145)</u>



<u>Total</u>	<u>Internal Service Fund</u>
\$ 464,247	\$ (194,698)
175,186	139,131
(27,594)	9,226
(70,205)	(25)
3,257	(6,882)
(827)	(53)
95,777	24,720
817	113
376	547
75,422	(6,036)
(3,340)	-
<u>\$ 713,116</u>	<u>\$ (33,957)</u>

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

CITY OF IRON MOUNTAIN

**STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

June 30, 2007

	<u>Expendable Trust Fund</u>	<u>Non-Expendable Trust Fund</u>	<u>Pension Trust Fund</u>
	Health Insurance	Cemetery Perpetual Care	Police and Fire Pension
ASSETS:			
Cash and equivalents	\$ 175,735	\$ 48,797	\$ 5,521
Receivables:			
Interest and dividends	104	4,092	-
Investments, at fair value	<u>49,079</u>	<u>418,219</u>	<u>8,102,393</u>
TOTAL ASSETS	<u>224,918</u>	<u>471,108</u>	<u>8,107,914</u>
LIABILITIES:			
Accounts payable	3,771	-	-
Due to other funds	<u>-</u>	<u>1,732</u>	<u>-</u>
TOTAL LIABILITIES	<u>3,771</u>	<u>1,732</u>	<u>-</u>
NET ASSETS:			
Held in trust for pension benefits and other purposes	<u>\$ 221,147</u>	<u>\$ 469,376</u>	<u>\$ 8,107,914</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



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

CITY OF IRON MOUNTAIN

**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS
FIDUCIARY FUNDS**

For the Year Ended June 30, 2007

	<u>Expendable Trust Fund</u>	<u>Non-Expendable Trust Fund</u>	<u>Pension Trust Fund</u>
	Health Insurance	Cemetery Perpetual Care	Police and Fire Pension
ADDITIONS:			
Contributions:			
Employer	\$ -	\$ -	\$ 403,482
Plan members	832	-	68,131
City	297,144	-	-
Other	114,577	-	-
Total contributions	412,553	-	471,613
Investment earnings:			
Net increase (decrease) in fair value of assets	1,210	999	500,220
Interest	14,360	21,860	102,742
Dividends	-	-	135,227
Gain on sale of securities (net of losses)	-	-	308,075
Total investment earnings	15,570	22,859	1,046,264
Other	-	7,600	1,499
TOTAL ADDITIONS	428,123	30,459	1,519,376
DEDUCTIONS:			
Benefits	-	-	636,605
Retirees health insurance	598,034	-	-
Administrative expenses	-	-	85,444
Other	783	-	810
Transfer out	-	20,598	-
TOTAL DEDUCTIONS	598,817	20,598	722,859
Change in net assets	(170,694)	9,861	796,517
NET ASSETS, BEGINNING OF YEAR	391,841	459,515	7,311,397
NET ASSETS, END OF YEAR	\$ 221,147	\$ 469,376	\$ 8,107,914

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



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

THE REPORTING ENTITY

The City of Iron Mountain, Michigan ("City") was incorporated in 1889 under the provisions of the State of Michigan. Pursuant to a Home Rule Charter adopted by public vote on October 22, 1985, the City operates under a Council-Manager form of government and provides the following services to its residents: public safety (police and fire), highway and streets, sanitation, culture-recreation, public improvements, planning and zoning, certain public utilities and general administrative services.

The City, for financial reporting purposes, includes all of the funds and account groups relevant to its operations. The financial statements presented herein do not include agencies which have been formed under applicable state laws or separate distinct units of government apart from the City. The accompanying financial statements present the City's primary government and component units over which the City exercises significant influence. Significant influence or accountability is based primarily on operational or financial relationships with the City (as distinct from legal relationships).

The criteria established by the Governmental Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity's financial statements include budget adoption, taxing authority, funding, appointment of the respective governing board and scope of public service.

Based on the foregoing criteria, the financial statements of the City's Downtown Development Authority (D.D.A.) and Tax Increment Financing Authority (T.I.F.A.) are included in the accompanying financial statements.

The Iron Mountain Housing Commission (Commission) is included as a discretely presented component unit of the City. The Commission provides safe and affordable housing for low income and elderly individuals. The Commission was formed under Public Act 18 of 1933 of the State of Michigan and operates under a Board of Commissioners appointed by the City Manager. The Commission issues separately audited financial statements and can be obtained from the Iron Mountain Housing Commission at 401 East "D" Street, Iron Mountain, MI 49801.

Similarly, it has been determined that the financial statements of the following organizations should not and accordingly, are not included in the accompanying financial statements: Joint Sewage Authority, Central Landfill Authority, the Economic Development Authority and the School District of the City of Iron Mountain.

The accounting policies of the City conform to accounting principles generally accepted in the United States of America. The following is a summary of such significant policies.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION

Government-Wide Financial Statements:

The Statement of Net Assets and Statement of Activities display information about the City as a whole. They include all funds of the City except for fiduciary funds. The statements distinguish between governmental and business-type activities. Governmental activities generally are financed through taxes, intergovernmental revenues, and other nonexchange revenues. Business-type activities are financed in whole or in part by fees charged to external parties for goods or services.

Fund Financial Statements:

The accounts of the City are organized on the basis of funds, each of which is considered a separate accounting entity. The operations of each fund are accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenditures, or expenses, as appropriate. Government resources are allocated to and accounted for in individual funds based upon the purposes for which they are to be spent and the means by which spending activities are controlled. Funds are organized into three major categories: governmental, proprietary and fiduciary. An emphasis is placed on major funds within the governmental and proprietary categories. The General Fund is always considered a major fund and the remaining funds of the City are considered major if it meets the following criteria:

- a. Total assets, liabilities, revenues or expenditures/expenses of that individual governmental or enterprise fund are at least 10 percent of the corresponding total for all funds of that category or type; and
- b. Total assets, liabilities, revenues or expenditures/expenses of the individual governmental fund or enterprise fund are at least 5 percent of the corresponding total for all governmental and enterprise funds combined.

The City reports the following as major governmental funds in accordance with the above criteria:

The General Fund which is described below.

T.I.F.A. Debt Service Fund which is described below.

Tax Increment Financing Authority Fund which is described below.

The City reports the following as major enterprise funds in accordance with the above criteria:



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

BASIS OF PRESENTATION (Continued)

The Water Utility Fund which is described below.

The Sewer Fund which is described below.

The funds of the City are described below:

Governmental Funds

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

Special Revenue Funds - Special Revenue Funds are used to account for the proceeds of specific revenue sources (other than special assessments, expendable trust or major capital projects) that are legally restricted to expenditures for specified purposes.

Debt Service Funds - Debt Service Funds are used to account for the accumulation of resources for, and the payment of, general long-term debt principal, interest, and related costs.

Capital Project Funds - Capital Project Funds are used to account for the acquisition or construction of major capital facilities (other than those financed by proprietary funds).

Proprietary Funds

Enterprise Funds - Enterprise Funds are used to account for operations (a) which are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges; or (b) where the governing body has decided that periodic determination of revenues earned, expenses incurred, and/or net income is appropriate for capital maintenance, public policy, management control, accountability, or other purposes.

Internal Service Funds - Internal Service Funds are used to finance, administer, and account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit on a cost reimbursement basis.

Fiduciary Funds

Trust and Agency Funds are used to account for assets held by the City in a trustee capacity or as an agent for individuals, other governments and other funds. These include expendable and nonexpendable trust, pension trust, and agency funds. Agency funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING

Measurement focus is a term used to describe “which” transactions are recorded within the various financial statements. Basis of accounting refers to “when” transactions are recorded regardless of the measurement focus applied.

Measurement Focus:

On the government-wide Statement of Net Assets and the Statement of Activities, both governmental and business-type activities are presented using the economic resource measurement focus as defined in item b. below.

In the fund financial statements, the “current financial resources” measurement focus or the “economic resources” measurement focus is used as appropriate:

- a. All governmental funds utilize a “current financial resources” measurement focus. Only current financial assets and liabilities are generally included on their balance sheets. Their operating statements present sources and uses of available spendable financial resources during a given period. These funds use fund balance as their measure of available spendable resources at the end of the period.
- b. The proprietary funds utilize an “economic resources” measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position and cash flows. All assets and liabilities, whether current or noncurrent, associated with their activities are reported. Proprietary fund equity is classified as net assets.
- c. Agency funds are not involved in the measurement of results of operations; therefore, measurement focus is not applicable to them.

Basis of Accounting:

In the government-wide Statement of Net Assets and Statement of Activities, both governmental and business-type activities are presented using the accrual basis of accounting. Under the accrual basis of accounting, revenues are recognized when earned and expenses are recorded when the liability is incurred or economic asset used. Revenues, expenses, gains, losses, assets and liabilities resulting from exchange and exchange-like transactions are recognized when the exchange takes place.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

MEASUREMENT FOCUS AND BASIS OF ACCOUNTING (Continued)

In the fund financial statements, governmental funds are presented on the modified accrual basis of accounting. Under the modified basis of accountings, revenues are recognized when "measurable and available". Measurable means knowing or being able to reasonably estimate the amount. Available means collectible within the current period or within sixty days after year end. Expenditures, including capital outlay, are recorded when the related liability is incurred, except for principal and interest on general long-term debt and accrued compensated absences, which are reported when due.

As allowed by GASB Statement No. 20, the City's business-type activities and enterprise funds follow all GASB pronouncements and FASB Statements and Interpretations that were issued on or after November 30, 1989, except those that conflict with a GASB pronouncement.

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE

- a. Cash and Equivalents – The City's cash and cash equivalents as reported in the Statement of Cash Flows and the Statement of Net Assets are considered to be cash on hand, demand deposits and short-term investments with maturities of three months or less.
- b. Investments – Investments are stated at the fair-market value of the underlying securities.
- c. Receivables – All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectable.
- d. Due to and Due From Other Funds – Interfund receivables and payables arise from interfund transactions and are recorded by all funds affected in the period in which transactions are executed.
- e. Inventory – Inventories of the City's General, Water Utility, Sewer, and Motor Vehicle and Equipment Replacement Funds consist of supplies of repair and replacement parts maintained for internal consumption. Quantities are determined by a physical count and/or measurement which is then priced using current costs.
- f. Fixed Assets – The accounting and reporting treatment applied to property plant and equipment depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

Government-Wide Statements:

In the government-wide financial statements, fixed assets are accounted for as capital assets. All fixed assets are valued at historical cost or estimated historical cost if actual is unavailable, except for donated fixed assets which are recorded at their estimated fair value at the date of donation.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the Statement of Activities, with accumulated depreciation reflected in the Statement of Net Assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

Buildings and improvements	10-40 years
Machinery and equipment	5-20 years
Infrastructure	20-80 years

Fund Financial Statements:

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide financial statements.

The City has adopted a capitalization policy for fixed assets of \$1,000 per item.

- g. Restricted Assets - These assets are comprised of cash, certificates of deposit and other investments which are equal to the balance of utility customer service deposits. Specifically the accounts and their balances are as follows:

Cash in checking - an amount equal to utility service customer deposits.

\$54,963

- h. Long-Term Debt - The accounting treatment of long-term debt depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources are reported as liabilities in the government-wide statements. The long-term debt consists primarily of bonds payable and notes payable.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

ASSETS, LIABILITIES AND NET ASSETS/FUND BALANCE (Continued)

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principle and interest reported as expenditures. The accounting for proprietary funds is the same in the fund statements as it is in the government-wide statements.

- i. Compensated Absences - It is the City's policy to permit employees to accumulate a limited amount of earned but unused sick leave, which will be paid to employees upon separation from the City. In governmental funds, the cost of sick leave is recognized when payments are made to employees. In proprietary funds, the cost of vested sick leave is recognized as an expense as earned by the employees.
- j. Equity Classification

Government-Wide Statements:

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt – Consists of capital assets including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, notes or other borrowings that are attributable to the acquisition, construction or improvement of those assets.
2. Restricted net assets – Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors or laws or regulations of other governments; or (2) law through constitutional provisions of enabling legislation.
3. Unrestricted net assets – All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

Fund Statements:

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated, if appropriate. Proprietary fund equity is classified the same as in the government-wide statements.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES

Revenues:

Government-Wide Statements:

In the government-wide Statement of Activities, revenues are segregated by activity (governmental or business-type), and are classified as either a program revenue or a general revenue. Program revenues include charges to customers or applicants for goods or services, operating grants and contributions and capital grants and contributions. General revenues includes all revenues which do not meet the criteria of program revenues and include revenues such as property taxes, State revenue sharing payments and interest earnings.

Fund Statements:

In the governmental fund statements revenues are reported by source, such as federal sources, state sources and taxes. Revenues consist of general purpose revenues and restricted revenues. General purpose revenues are available to fund any activity reported in that fund, while restricted revenues are available for a specific purpose or activity and the restrictions are typically required by law or a grantor agency.

Expenses/Expenditures:

Government-Wide Statements:

In the government-wide Statement of Activities, expenses are segregated by activity (governmental or business-type), and are classified by function.

Fund Statements:

In the governmental fund financial statements expenditures are classified by function.

In the proprietary fund financial statements expenses are classified by operating and nonoperating and are subclassified by function such as salaries, supplies and contracted services.

Operating Revenues and Expenses:

Operating revenues and expenses for proprietary funds are those that result from providing services and producing and delivering goods and/or services. It also includes all revenue and expenses not related to capital and related financing, noncapital financing or investing activities.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

REVENUES AND EXPENDITURES/EXPENSES (Continued)

Other Financing Sources (Uses):

The transfers of cash between the various City funds are budgeted but reported separately from revenues and expenditures as operating transfers in or (out), unless they represent temporary advances to be repaid, in which case, they are carried as assets and liabilities of the advancing or borrowing funds.

OTHER SIGNIFICANT ACCOUNTING POLICIES

Interfund Activity:

As a general rule, the effect of interfund activity has been eliminated from the government-wide statements. Exceptions to this rule are: 1) activities between funds reported as governmental activities and funds reported as business-type activities, and 2) activities between funds that are reported in different functional categories in either the governmental or business-type activities column. Elimination of these activities would distort the direct cost and program revenues for the functions concerned.

In the fund financial statements, transfers represent flows of assets without equivalent flows of assets in return or a requirement for repayment.

Interfund receivables and payables have been eliminated from the Statement of Net Assets, except for the residual amounts due between governmental and business-type activities.

Budgets and Budgetary Accounting:

The City Council follows these procedures in establishing the budgetary data reflected in the financial statements:

- (1) Prior to the first Monday in April, the City Manager submits to the City Council a proposed operating budget for the fiscal year commencing the following July 1. The operating budget includes proposed expenditures and the means of financing them for the upcoming year, along with estimates for the current year and actual data for the two preceding years. The City Charter requires that the budget be submitted in summary form. In addition, detailed line item budgets are included for administrative control. The level of control for the detailed budgets is at the functional level.
- (2) Public hearings are conducted to obtain taxpayer comment.
- (3) Prior to May 31, the budget is legally enacted through passage of a resolution.
- (4) The City Manager is required by the City Charter to present a quarterly report to the City Council explaining any variance from the approved budget.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE A - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

OTHER SIGNIFICANT ACCOUNTING POLICIES (Continued)

- (5) Formal budgetary integration is employed as a management control device during the year for the General, Special Revenue, Debt Service, Enterprise, Internal Service and Expendable Trust Funds.
- (6) Budgets for those funds are adopted on a basis consistent with generally accepted accounting principles (GAAP). (See Basis of Accounting above).
- (7) The City Charter requires the adoption of a summary budget for proprietary funds.
- (8) Appropriations lapse at the end of each fiscal year.
- (9) The City Council may authorize supplemental appropriations during the year.

The budget for the year ended June 30, 2007 was formally adopted by action of the City Council on May 15, 2006 and was amended on June 25, 2007.

Property Taxes:

Property taxes attach as an enforceable lien on property as of January 1, and are levied, due and payable as of July 1. All unpaid taxes become delinquent on August 10 of the same year. Property tax revenues are recognized when they become available. Available includes those taxes expected to be collected within sixty days after year end.

RESERVATIONS AND DESIGNATIONS OF FUND BALANCES AND RETAINED EARNINGS

Reservations are used to indicate that a portion of fund balance/retained earnings is not appropriate for expenditure or is legally segregated for a specific future use.

Designations indicate tentative plans or intent for resource utilization in a future period and are thus subject to change and may never be legally authorized or result in expenditure.

USE OF ESTIMATES

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



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS

Cash and Equivalents

The City's cash and equivalents, as reported in the Statement of Net Assets, consisted of the following:

Petty cash	\$ 1,650
Checking accounts	107,304
Repurchase sweep checking accounts	<u>2,905,129</u>
TOTAL	<u>\$3,014,083</u>

Custodial Credit Risk. Custodial credit risk is the risk that in the event of a bank failure, the City's deposits may not be returned. State law does not require and the City does not have a policy for deposit custodial credit risk. As of June 30, 2007, the City's checking accounts were uninsured and uncollateralized in the amount of \$133,524. The repurchase sweep checking accounts were collateralized with U.S. Govt. securities with a fair market value of \$5,135,111 at June 30, 2007.

Investments

The City's investments, as reported in the Statement of Net Assets, consisted of the following:

<u>Investment Type</u>	<u>Fair Value</u>	<u>(Investment Maturities in Years)</u>			
		<u>Less Than 1</u>	<u>1-5</u>	<u>6-10</u>	<u>11-15</u>
Certificates of Deposit	\$ 1,187,454	\$ 594,859	\$ 592,595	\$ -	\$ -
Repurchase Agreements	200,000	200,000	-	-	-
Pooled Funds	267	267	-	-	-
U.S. Agencies	<u>3,024,790</u>	<u>499,395</u>	<u>1,941,732</u>	<u>291,064</u>	<u>292,599</u>
TOTAL	<u>\$ 4,412,511</u>	<u>\$ 1,294,521</u>	<u>\$2,534,327</u>	<u>\$ 291,064</u>	<u>\$ 292,599</u>

Investments are recorded at fair market value, which is based on quoted market prices.

Michigan statutes authorize the City to invest in bonds, other direct obligations and repurchase agreements of the United States, certificates of deposits, savings accounts, deposit accounts or receipts of a bank which is a member of the FDIC, commercial paper rated at the time of purchase within the two highest classifications established by not less than two standard rating services and matures within 270 days of date of purchase, bankers' acceptances of United States banks, obligations of the State of Michigan and its political subdivisions, external investment pools, and certain mutual funds.

Interest Rate Risk. Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of the City's investments. State law limits the allowable investments as described above. The City does not have a formal investment policy that limits investment maturities as a means of managing its exposure to fair value losses arising from increasing interest rates.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE B - CASH AND INVESTMENTS (Continued)

Investments (Continued)

Credit Risk. Credit risk is the risk that an issuer or other party to an investment will not fulfill its obligations. The City has no investment policy limiting its investments in excess of state law on investment credit. Ratings are not required for the City's investments outlined above. The City's investments are in accordance with statutory authority.

NOTE C - RETIREMENT PLANS

Michigan Employee's Retirement System (MERS)

Description of Plan and Plan Assets - The Plan is an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS) of Michigan. The system provides the following provisions: service retirement, deferred retirement and disability retirement to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5 percent times the final average compensation (FAC) with a maximum benefit of 80% of FAC. The most recent period of which actuarial data was available was for the fiscal year ended December 31, 2006.

MERS was created under Public Act 135 of 1945, repealed and replaced by successor Municipal Employees Retirement Act of 1984 (PA 427), as last amended by 2004 PA 490, and the MERS Plan Document, as revised. MERS was established to provide a pooled program for retirement, survivor and disability benefits on a voluntary basis to the State of Michigan's local government employees. MERS issues a publicly available financial report that includes financial statements and requires supplementary information for the system. That report may be obtained by writing to the MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City, which requires employees to contribute 5% of gross wages to the plan. The City is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at December 31, 2006 was 18.18% for the General Group, 121.39% for the Foreman Group, and 28.16% for the Administrative Group.

Annual Pension Cost - During the fiscal year ended December 31, 2006, the City's contributions totaling \$209,817 and employee contributions of \$51,914 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE C - RETIREMENT PLANS (Continued)

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL) Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
12/31/04	\$ 6,499,458	\$ 9,878,776	\$ 3,379,318	66%	1,088,559	(310%)
12/31/05	\$ 6,472,445	\$ 9,928,725	\$ (3,456,280)	65%	976,618	(354%)
12/31/06	\$ 6,524,193	\$ 10,264,987	\$ (3,740,794)	64%	1,096,548	(341%)

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
12/31/2004	\$ 212,314	100%	\$ -
12/31/2005	196,120	100%	-
12/31/2006	209,817	100%	-

Police and Fireman's Retirement System

Description of Plan and Plan Assets

In September, 1938 the City voters approved establishing a Police and Firemen's Retirement system pursuant to Act 345 of the Public Acts of 19377, as amended. The retirement system covers all full time employees of the City's public safety department. Benefits are payable to retirees age 60 or older, regardless of their years of service or age 50 with 25 or more years of service.

The City's contribution to the system amounted to \$391,701 for the year ended June 30, 2007 and has been determined to be \$461,804 for the fiscal year beginning July 1, 2007.

Funding Policy - The obligation to contribute to and maintain the system for these employees was established by the City, which requires employees to contribute 5% of gross wages to the plan. The City is required to contribute at an actuarially determined rate. The contribution rate as a percentage of payroll at June 30, 2007 was 30.96%.

Annual Pension Cost - During the fiscal year ended June 30, 2007, the City's contributions totaling \$391,701 and employee contributions of \$68,824 were made in accordance with contribution requirement determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required to amortize the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his projected benefit. Significant actuarial



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE C - RETIREMENT PLANS (Continued)

assumptions used include a long-term investment yield rate of 7.5 percent and annual salary increases of 4.5 percent based on an age-related scale to reflect merit, longevity, and promotional salary increases.

Actuarial Valuation Date	Accrued Actuarial Value of Assets (a)	Actuarial Liability - (AAL) Entry Age (b)	Underfunded AAL (UAAL) (a-b)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll ((a-b)/c)
06/30/04	\$ 7,599,354	\$ 10,716,806	\$ (3,117,452)	71%	1,340,972	(232%)
06/30/05	\$ 7,411,541	\$ 10,991,998	\$ (3,580,457)	67%	1,237,640	(289%)
06/30/06	\$ 7,473,252	\$ 11,613,299	\$ (4,140,047)	64%	1,365,806	(303%)

Three-Year Trend Information

Fiscal Year Ending	Annual Pension Cost (APC)	Percentage of APC Contributed	Net Pension Obligation
6/30/2004	\$ 292,674	100%	\$ -
6/30/2005	353,966	100%	-
6/30/2006	391,701	100%	-

NOTE D - INTERFUND BALANCES AND TRANSFERS

During the course of normal operations, the City has numerous transactions between funds including expenditures and transfers of resources. Such transactions are generally reflected as transfers in the various funds' financial statements.

In the fund financial statements, individual interfund receivable and payable balances at June 30, 2007 arising from these transactions are as follows:

Fund	Interfund Receivables	Fund	Interfund Payables
General Fund	\$ 52,586	General Fund	\$ 1,779
Local Street	9,146	Major Street	4,924
Motor Vehicle	25	Local Street	10,400
T.I.F.A.	1,726	Nonmajor Governmental	383,423
Nonmajor Governmental	53	Water Utility	141,125
Water Utility	383,423	Sewer	2,655
Sewer	<u>99,080</u>	Cemetery Trust	<u>1,733</u>
Totals	<u>\$ 546,039</u>		<u>\$ 546,039</u>



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE D - INTERFUND BALANCES AND TRANSFERS (Continued)

In the statement of net assets, interfund receivables and payables are as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Cemetery Trust	\$ 1,732	Water Utility	\$ 1,306
Water Utility	42,045	General	38,333
Sewer	2,655	Local Street	8,099
Water Capital Improvement	<u>1,306</u>		
Totals	<u>\$ 47,738</u>		<u>\$ 47,738</u>

In the fund financial statement, interfund transfers for the year ended June 30, 2007 were as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
General	\$ 253,000	General	\$ 72,598
Major Street	175,000	Local Street	175,000
Nonmajor		Nonmajor	
Governmental	74,814	Governmental	109,000
T.I.F.A.	694,300	T.I.F.A. Debt	642,300
Cemetery Trust	<u>20,598</u>	Water Utility	16,814
		Sewer	58,000
		Motor Vehicle	<u>144,000</u>
Totals	<u>\$ 1,217,712</u>		<u>\$ 1,217,712</u>

In the statement of activities, interfund transfers are as follows:

<u>Fund</u>	<u>Transfers In</u>	<u>Fund</u>	<u>Transfers Out</u>
Cemetery Trust	\$ 20,598	General	\$ 20,598
Water Capital		Water Capital	
Improvements	80,814	Improvement	64,000
Capital		Water Utility	<u>138,814</u>
Improvement	58,000		
Water Utility	<u>64,000</u>		
Totals	<u>\$ 223,412</u>		<u>\$ 223,412</u>

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
 CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE E – CAPITAL ASSETS

GOVERNMENTAL ACTIVITIES

All fixed assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated fixed assets are valued at their estimated fair value on the date donated. Fixed asset activity for the year ended June 30, 2007 was as follows:

	<u>July 1, 2006</u>	<u>Additions</u>	<u>Cost</u> <u>Deletions</u>	<u>June 30, 2007</u>
Land and improvements	\$ 4,232,067	\$ 447,881	\$ -	\$ 4,679,948
Buildings	4,277,665	171,569	-	4,449,234
Equipment	1,597,814	211,301	(186,161)	1,622,954
Vehicles	2,249,166	37,163	(10,830)	2,275,499
Sewer system	12,644,694	377,548	(12,600)	13,009,642
Roads	<u>18,110,437</u>	<u>1,425,834</u>	<u>(356,844)</u>	<u>19,179,427</u>
Total Cost	<u>\$ 43,111,843</u>	<u>\$ 2,671,296</u>	<u>\$ (566,435)</u>	<u>\$ 45,216,704</u>
		<u>Accumulated Depreciation</u>		
		<u>Current</u>		
	<u>July 1, 2006</u>	<u>Depreciation</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Land improvements	\$ 225,114	\$ 85,608	\$ -	\$ 310,722
Buildings	1,509,927	109,269	-	1,619,196
Equipment	964,005	105,954	(185,708)	884,251
Vehicles	1,435,708	97,927	(10,830)	1,522,805
Sewer system	2,960,060	259,086	(12,600)	3,206,546
Roads	<u>11,512,081</u>	<u>913,841</u>	<u>(356,844)</u>	<u>12,069,078</u>
Total Accumulated Depreciation	<u>18,606,895</u>	<u>\$ 1,571,685</u>	<u>\$ (565,982)</u>	<u>19,612,598</u>
Net Assets	<u>\$ 24,504,948</u>			<u>\$ 25,604,106</u>

Depreciation expense was charged to governmental activities as follows:

Governmental activities:	
General government	\$ 70,691
Public safety	45,983
Parks and recreation	37,762
Cemetery	2,880
General public works	<u>1,414,369</u>
Total governmental activities depreciation expense	<u>\$ 1,571,685</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE E – CAPITAL ASSETS (Continued)

BUSINESS TYPE ACTIVITIES

	<u>Cost</u>			
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Land	\$ 43,236	\$ -	\$ -	\$ 43,236
Equipment	182,036	-	-	182,036
Water and sewer system	<u>11,754,986</u>	<u>625,767</u>	<u>-</u>	<u>12,380,753</u>
Total Cost	<u>\$ 11,980,258</u>	<u>\$ 625,767</u>	<u>\$ -</u>	<u>\$12,606,025</u>
		<u>Accumulated Depreciation</u>		
		<u>Current</u>		
	<u>July 1, 2006</u>	<u>Depreciation</u>	<u>Deletions</u>	<u>June 30, 2007</u>
Equipment	\$ 100,322	\$ 6,903	\$ -	\$ 107,225
Water and sewer system	<u>1,864,549</u>	<u>168,283</u>	<u>-</u>	<u>2,032,832</u>
Total Accumulated Depreciation	<u>1,964,871</u>	<u>\$ 175,186</u>	<u>\$ -</u>	<u>2,140,057</u>
Net Assets	<u>\$ 10,015,387</u>			<u>\$10,465,968</u>

Depreciation charged to expense was \$175,186 for the year ended June 30, 2006.

NOTE F - LONG-TERM DEBT

GOVERNMENTAL ACTIVITIES

The following is a summary of changes in long-term debt for the year ended June 30, 2007:

<u>Type of Debt</u>	<u>Balance</u>			<u>Amounts Due Within</u>	
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>	<u>Balance June 30, 2007</u>	<u>One Year</u>
1993 T.I.F.A. Bonds	\$ 2,750,000	\$ -	\$ (510,000)	\$ 2,240,000	\$ 540,000
2002 Installment Note	263,067	-	(18,531)	244,536	19,342
2005 Installment Note	83,732	-	(8,401)	75,331	8,577
2005 Installment Note	9,736	-	(9,736)	-	-
2006 Installment Note	142,096	-	(19,730)	122,366	20,462
2007 Installment Note	-	25,100	-	25,100	12,297
2007 Installment Note	-	104,400	(6,415)	97,985	13,249
I/T Capital Lease	53,231	-	(25,916)	27,315	27,315
Vested compensated absences	<u>19,070</u>	<u>1,136</u>	<u>-</u>	<u>20,206</u>	<u>6,513</u>
Total long-term debt	<u>\$ 3,320,932</u>	<u>\$ 130,636</u>	<u>\$ (598,729)</u>	<u>\$ 2,852,839</u>	<u>\$ 647,755</u>

The total amount of interest charged to expense was \$158,092.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

<u>Type of Debt</u>	<u>Balance</u>			<u>Balance</u>	<u>Amounts</u>
	<u>July 1, 2006</u>	<u>Additions</u>	<u>Deductions</u>		
					<u>One Year</u>
2004 Bonds Payable	<u>\$4,565,000</u>	<u>\$ -</u>	<u>\$(85,000)</u>	<u>\$4,480,000</u>	<u>\$90,000</u>

The total amount of interest charged to expense was \$70,785. Interest expenses capitalized during the year amounted to \$145,003.

GOVERNMENTAL ACTIVITIES

Debt service requirements on long-term debt at June 30, 2007 are as follows:

<u>For the Year</u>	<u>Notes Payable and</u>		<u>Bonds Payable</u>		<u>Total</u>
	<u>Capital Lease</u>		<u>Principal</u>	<u>Interest</u>	
<u>Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	
2008	\$ 101,242	\$ 25,783	\$ 540,000	\$ 106,300	\$ 773,325
2009	77,199	21,834	560,000	79,300	738,333
2010	67,253	18,586	565,000	51,300	702,139
2011	70,235	15,605	575,000	25,875	686,715
2012	73,330	12,510	-	-	85,840
2013-2017	<u>203,375</u>	<u>24,950</u>	<u>-</u>	<u>-</u>	<u>228,325</u>
Total	<u>\$ 592,634</u>	<u>\$ 119,268</u>	<u>\$ 2,240,000</u>	<u>\$ 262,775</u>	<u>\$ 3,214,677</u>

It is estimated that vested compensated absences will mature subsequent to the year ending June 30, 2007.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

BUSINESS-TYPE ACTIVITIES

For the Year <u>Ending June 30</u>	<u>Bonds Payable</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2008	\$ 90,000	\$ 210,115	\$ 300,115
2009	90,000	206,515	296,515
2010	95,000	202,915	297,915
2011	100,000	199,115	299,115
2012	100,000	195,115	295,115
2013-2017	575,000	911,105	1,486,105
2018-2022	725,000	774,868	1,499,868
2023-2027	925,000	587,380	1,512,380
2028-2032	1,205,000	330,750	1,535,750
2033-2034	<u>575,000</u>	<u>43,500</u>	<u>618,500</u>
Total	<u>\$ 4,480,000</u>	<u>\$ 3,661,378</u>	<u>\$ 8,141,378</u>

GOVERNMENTAL ACTIVITIES

As of June 30, 2007, the governmental activities long-term debt consisted of the following:

1993 Bonds Payable

1993 Tax Increment Bonds originally totaling \$5,715,000 (denomination \$5,000 each) dated February 1, 1993 mature annually on May 1 through 2011. Interest is paid semi-annually on November 1, and May 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the Tax Increment Finance Authority of the City of Iron Mountain for the purpose of financing the following capital projects:

The project included separation of storm sewer from sanitary sewer and placement of approximately 25,000 lineal feet of new trunk line storm sewer, storm sewer leads, manholes, catch basins and related appurtenances within the Tax Increment Finance Authority City (TIFA City) and adjacent tributary areas to correct flooding problems within the TIFA City. Also included was improvement to Mud Lake (East) for detention of storm water and selected water main and other sanitary sewer improvements.

The bonds and interest thereon are payable primarily from the property tax revenues of the Tax Increment Finance Authority. As additional security for the payment of bond principal and interest, the City has pledged its full faith and credit. Hence, these bonds are said to be limited tax general obligation bonds.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

Bonds or portions of bonds in multiples of \$5,000 of this issue maturing in the years 2002 to 2011, inclusive, are subject to redemption, at the option of the Authority in such order of maturity as determined by the Authority and by lot, on any interest payment date on or after May 1, 2001 at par and accrued interest to date fixed for redemption plus a premium expressed as a percentage of par as follows:

1% of the principal amount of each Bond or portion thereof called for redemption on or after May 1, 2003 but prior to May 1, 2007;

No premium shall be paid on Bonds or portions thereof called for redemption on or after May 1, 2007.

Notes Payable

5.06% loan payable \$15,872 semi-annually including interest and secured by truck equipment. The loan was in the original amount of \$329,251 and it matures in 2017. The loan balance at June 30, 2007 was \$244,536.

4.10% loan payable \$5,898 semi-annually plus interest and secured by truck equipment. The loan was in the original amount of \$96,000 and it matures in the year 2014. The loan balance at June 30, 2007 was \$75,331.

2.80% loan payable \$10,013 annually including interest and is unsecured. The loan was in the original amount of \$19,685 and it matures in 2007. The loan balance at June 30, 2007 was \$0.

3.69% loan payable \$12,395 semi-annually including interest and is secured by truck equipment. The loan was in the original amount of \$151,700 and it matures in 2012. The loan balance at June 30, 2007 was \$122,366.

4.0% loan payable \$6,597 semi-annually including interest and is secured by a vehicle. The loan was in the original amount of \$25,100 and it matures in 2009. The loan balance at June 30, 2007 was \$25,100.

4.49% loan payable \$8,754 semi-annually including interest and is secured by truck equipment. The loan was in the original amount of \$104,400 and it matures in 2013. The loan balance at June 30, 2007 was \$97,985.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE F - LONG-TERM DEBT (Continued)

Capital Lease

4.534% capital lease payable \$2,324 monthly including interest and secured by computer hardware and software. The capital lease, in the original amount of \$78,094, which included \$58,094 for hardware and software and \$20,000 for training, matures in 2008. The hardware and software cost of \$58,094 is included in equipment under Governmental Activities and had accumulated depreciation of \$11,619 at June 30, 2007.

Future minimum lease payments at June 30, 2007 were as follows:

2008	<u>7,894</u>
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BUSINESS-TYPE ACTIVITIES

2004 Bonds Payable

Series 2004 Limited Tax General Obligation Bonds originally totaling \$4,800,000 (denomination \$5,000 each) dated August 1, 2004 mature annually on March 1 through 2034. Interest is paid semi-annually on September 1 and March 1 of each year at the stated coupon rate as reflected below.

The bonds were issued by the City of Iron Mountain for the purpose of paying part of the cost of acquiring, constructing, furnishing and equipping certain capital improvement items consisting of water system improvements together with all appurtenances, attachments and related facilities.

The bonds and interest thereon are payable primarily from fees charged to customers of the water utility system. The City, however, as additional security for the payment of bond principal and interest, has pledged its full faith and credit accordingly, the bonds are said to be limited tax general obligation bonds.

The bonds maturing on or prior to March 1, 2013 shall not be subject to redemption prior to maturity. Bonds maturing on or after March 1, 2014 shall be subject to redemption prior to maturity at the option of the City, in such order as shall be determined by the City, on any one or more interest payment dates on or after March 1, 2013. Bonds of a denomination greater than \$5,000 may be partially redeemed in the amount of \$5,000 or any integral multiple thereof. If less than all of the bonds maturing in any year are to be redeemed, the bonds or portions of bonds to be redeemed shall be selected by lot. The redemption price shall be the par value of the bonds or portion of the bonds called to be redeemed plus interest to the date fixed for redemption.

NOTE G - COMPENSATED ABSENCES

Pursuant to the requirements of Financial Accounting Standards Board Statement 43, the City accrues a liability for compensated absences.

For governmental funds the liability for compensated absences is recorded in the general long-term debt account group since it is anticipated that none of the liability will be liquidated with



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE G - COMPENSATED ABSENCES (Continued)

expendable available financial resources. The liability for compensated absences is recorded in proprietary fund types (Enterprise and Internal Service Funds) as accrued liabilities in accordance with FASB Statement 43.

Specifically, the various contracts and agreements covering the City's personnel allow for the vesting and/or accumulation of sick leave as follows:

	<u>Accumulated</u>	<u>Vested</u>
Firemen	\$105,602	\$ -
Police	174,186	13,498
City Hall Office	74,092	-
Other City Employees	<u>192,117</u>	<u>6,708</u>
TOTALS	<u>\$545,997</u>	<u>\$20,206</u>

NOTE H - TAX INCREMENT FINANCING AUTHORITY

Pursuant to applicable Michigan statutes the Iron Mountain City Council passed a resolution on May 20, 1985 creating a Tax Increment Financing Authority City which covers an area of approximately 1,300 acres along the highway U.S. 2 corridor from the south to the north city limits. Its purpose is to generate revenue (as discussed below) and to expend such amounts within the City for improvements to streets, curbs, sidewalks, and sewers.

The Authority's intended source of funding is property taxes levied within the City but only to the extent that such taxes are generated as a result of an increase in the total state equalized value since the established property evaluation base date of January 1, 1985. Accordingly, the Authority's first revenues received were from the July and December, 1985, tax billings.

NOTE I - WATER AND SEWER AGREEMENTS

The City has a long-term agreement with the Iron Mountain-Kingsford Joint Sewage Authority for sewage treatment. The agreement is established by ordinance (Chapter 3 Article 2) which provides for sewer rates, minimum monthly charges and a collection fee to be retained by the City for billing services provided. These rates can be adjusted periodically through ordinance amendments.

NOTE J - POST EMPLOYMENT HEALTH INSURANCE BENEFITS

In addition to providing pension benefits, the City provides health insurance benefits for its retired employees. Substantially all of its employees may become eligible for those benefits if they reach normal retirement age while working for the City. The cost of retiree's health care insurance is recognized as an expenditure as insurance premiums are paid. For fiscal 2007, the cost was \$245,487 for Police and Fire Retirees and \$352,548 for other retirees. The employees contributions amounted to \$832.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE K - RISK MANAGEMENT

The City of Iron Mountain is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City of Iron Mountain maintains commercial insurance coverage covering each of those risks of loss. Management believes such coverage is sufficient to preclude any significant uninsured losses to the City. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

NOTE L – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY

The City has reserved and designated fund balances or retained earnings at June 30, 2007 as follows:

General Fund:

1. An amount equal to inventory, a nonappropriable asset.	\$39,052
2. Funds earmarked for a police liaison officer.	4,718
3. An amount equal to delinquent property taxes receivable. These delinquent taxes, if collectible, are not expected to be substantially collected within one year.	14,441
4. Fire safety house	<u>5,186</u>
TOTAL	<u>\$63,397</u>

Debt Service Funds:

1991/1993 T.I.F.A. Bonds - Reserved Fund Balance - \$1,680,718; an amount to be used for future servicing of general obligation debt.

Capital Improvement Fund:

Designated Fund Balance - \$259,466; an amount equal to the fund's equity intended for future budgeted capital projects pursuant to a ten year plan.

Water Capital Improvement Fund:

Designated Fund Balance - \$592,195; an amount equal to the fund's equity intended for future budgeted water system construction projects.

Water Utility Fund:

Designated Retained Earnings - \$7,636,154; an amount retained for future operations and capital expenditures.

Sewer Fund:

Designated Retained Earnings - \$255,335; an amount retained for future operations and capital expenditures.



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE L – RESERVED AND DESIGNATED FUND BALANCES AND OTHER EQUITY (Continued)

Motor Vehicle Fund:

Designated Retained Earnings - \$1,268,142 an amount retained for future operations and capital expenditures.

Cemetery Perpetual Care Trust Fund:

Reserved Fund Balance - \$469,376; non-expendable accumulated proceeds of cemetery perpetual care leases sold.

Retirees' Health Insurance Fund:

Reserved Fund Balance - \$221,147, an amount which will be used to pay retirees health insurance premiums.

Police and Firemen's Pension Trust Fund:

Reserved Fund Balance - \$8,107,914; legally restricted for payments to retirees or active participants (upon withdrawal).

Additionally, the fund balances of the Tax Increment Financing Authority, \$2,013,007; and the Downtown Development Authority, \$74,021 as presented herein are reflected as being reserved as they represent amounts which have been restricted for use in budgeted capital projects.

NOTE M – COMMITMENTS

At June 30, 2007 the City had commitments for the following construction / improvement contracts:

Small Urban Project	\$219,417
T.I.F.A. Street Project	144,452
T.I.F.A. Utility Project	344,773
T.I.F.A. Sidewalk Project	<u>87,707</u>
	796,349
Amounts paid or accrued at June 30, 2007	<u>(385,639)</u>
Total Commitments	<u>\$410,710</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



CITY OF IRON MOUNTAIN

NOTES TO FINANCIAL STATEMENTS

June 30, 2007

(Continued)

NOTE N - EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Public Act 621 of 1978, as amended, provides that a City shall not incur expenditures in excess of amounts appropriated. The City budgeted expenditures on a functional basis.

During the year ended June 30, 2007, the City incurred expenditures in a certain account which was in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Total Expended</u>	<u>Expenditure Appropriated</u>	<u>Excess Amount</u>
Major Street:			
Public Works	\$771,350	\$499,181	\$(272,169)
Local Street:			
Public Works	\$748,390	\$589,879	\$(158,511)

The excess of expenditures over appropriations noted above were primarily the result of adjustments made to record both revenues and expenditures related to federal grants overseen by MDOT.

NOTE O – FEDERAL GRANTS

The Michigan Department of Transportation (MDOT) requires that all Cities report all federal and state grants pertaining to their City. During the year ended June 30, 2007, the federal aid received and expended by the City was \$855,339 for contracted projects. Contracted projects are defined as projects performed by private contractors paid for and administered by MDOT (they are included in MDOT's single audit). Local force account projects are projects where the City performs the work and would be subject to single audit requirements if they expended \$500,000 or more. Total federal aid expended on projects other than contracted projects amounted to \$454,183 for the year ended June 30, 2007, thus the City was not required to have an audit performed under OMB Circular A-133.

NOTE P – SUBSEQUENT EVENTS

The City was assessed \$20,000 in penalties from the Michigan Occupational Safety and Health Act (MIOSHA) on August 7, 2007 related to two instances of violations of the Act during it year-ended June 30, 2007. In addition to the \$20,000 penalties assessed on August 7, 2007, MIOSHA has indicated that additional penalties of \$20,000 to \$100,000 could be assessed due to the violations of Act. As of December 13, 2007, the additional penalties had not been assessed.



REQUIRED
SUPPLEMENTAL

CITY OF IRON MOUNTAIN

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL -
GENERAL FUND**

For the Year Ended June 30, 2007

	<u>Budgeted Amounts</u>		<u>Actual (Budgetary Basis) (Note A)</u>	<u>Variance with Final Budget Favorable (Unfavorable)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES:				
General property taxes	\$ 3,036,821	\$ 3,036,821	\$ 3,091,558	\$ 54,737
Licenses and permits	125,500	37,500	15,574	(21,926)
State grants	890,000	890,000	875,007	(14,993)
Federal grants	6,500	6,500	15,455	8,955
Charges for services	281,300	281,300	275,740	(5,560)
Local sources	42,000	42,000	40,741	(1,259)
Fines and forfeits	25,000	25,000	18,673	(6,327)
Interest and rents	90,000	90,000	102,679	12,679
Other	62,500	62,500	101,338	38,838
TOTAL REVENUES	<u>4,559,621</u>	<u>4,471,621</u>	<u>4,536,765</u>	<u>65,144</u>
EXPENDITURES:				
Legislative	17,870	17,870	14,220	3,650
General government	857,980	1,045,858	1,040,670	5,188
Public safety	2,324,651	2,324,651	2,285,946	38,705
Public works	756,505	808,000	822,388	(14,388)
Park and recreation	80,340	85,600	91,702	(6,102)
Debt service	-	27,891	27,891	-
Other	348,675	381,685	381,735	(50)
TOTAL EXPENDITURES	<u>4,386,021</u>	<u>4,691,555</u>	<u>4,664,552</u>	<u>27,003</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>173,600</u>	<u>(219,934)</u>	<u>(127,787)</u>	<u>92,147</u>
OTHER FINANCING SOURCES (USES):				
Operating transfers in	90,038	90,038	72,598	(17,440)
Operating transfers out	(233,000)	(253,000)	(253,000)	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>(142,962)</u>	<u>(162,962)</u>	<u>(180,402)</u>	<u>(17,440)</u>
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	30,638	(382,896)	(308,189)	74,707
FUND BALANCE, JULY 1	<u>1,225,400</u>	<u>1,225,400</u>	<u>1,225,400</u>	<u>-</u>
FUND BALANCE, JUNE 30	<u>\$ 1,256,038</u>	<u>\$ 842,504</u>	<u>\$ 917,211</u>	<u>\$ 74,707</u>

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



CITY OF IRON MOUNTAIN

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
MAJOR STREET**

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
State grants	\$ 547,700	\$ 547,700	\$ 588,199	\$ 40,499
Federal grants	-	-	229,021	229,021
Interest and rents	14,000	14,000	25,340	11,340
Other	1,200	1,200	6,829	5,629
TOTAL REVENUES	562,900	562,900	849,389	286,489
EXPENDITURES:				
Public works	499,181	499,181	761,580	(262,399)
Other	9,770	9,770	9,770	-
TOTAL EXPENDITURES	508,951	508,951	771,350	(262,399)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	53,949	53,949	78,039	24,090
OTHER FINANCING SOURCES (USES):				
Operating transfers out	(175,000)	(175,000)	(175,000)	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(121,051)	(121,051)	(96,961)	24,090
FUND BALANCE, JULY 1	644,462	644,462	644,462	-
FUND BALANCE, JUNE 30	\$ 523,411	\$ 523,411	\$ 547,501	\$ 24,090

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



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

CITY OF IRON MOUNTAIN

**SCHEDULE OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
LOCAL STREET**

For the Year Ended June 30, 2007

	Budgeted Amounts		Actual	Variance with Final Budget Favorable (Unfavorable)
	Original	Final		
REVENUES:				
State grants	\$ 224,500	\$ 224,500	\$ 160,042	\$ (64,458)
Federal grants	-	-	225,106	225,106
Interest and rents	8,000	8,000	10,834	2,834
Other	500	500	7,449	6,949
TOTAL REVENUES	233,000	233,000	403,431	170,431
EXPENDITURES:				
Public works	533,880	581,000	739,511	(158,511)
Other	8,879	8,879	8,879	-
TOTAL EXPENDITURES	542,759	589,879	748,390	(158,511)
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(309,759)	(356,879)	(344,959)	11,920
OTHER FINANCING SOURCES (USES):				
Operating transfers in	175,000	175,000	175,000	-
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(134,759)	(181,879)	(169,959)	11,920
FUND BALANCE, JULY 1	264,051	264,051	264,051	-
FUND BALANCE, JUNE 30	\$ 129,292	\$ 82,172	\$ 94,092	\$ 11,920

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



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



OTHER
SUPPLEMENTAL
INFORMATION

CITY OF IRON MOUNTAIN

**COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS**

June 30, 2007

	<u>Capital Improvement</u>	<u>Water Capital Improvement</u>	<u>Downtown Development Authority</u>	<u>Total Nonmajor Governmental Funds</u>
ASSETS:				
Cash and equivalents	\$ 261,055	\$ 289,876	\$ 75,371	\$ 626,302
Investments	-	298,280	-	298,280
Receivables:				
Taxes	-	-	596	596
Accounts	5,010	-	-	5,010
Interest & dividends	-	5,345	-	5,345
Due from other funds	-	-	53	53
TOTAL ASSETS	<u>\$ 266,065</u>	<u>\$ 593,501</u>	<u>\$ 76,020</u>	<u>\$ 935,586</u>
LIABILITIES:				
Accounts payable	\$ 6,599	\$ -	\$ 1,194	\$ 7,793
Accrued wages	-	-	500	500
Other accrued expenses	-	-	305	305
Due to other funds	-	1,306	-	1,306
TOTAL LIABILITIES	<u>6,599</u>	<u>1,306</u>	<u>1,999</u>	<u>9,904</u>
FUND BALANCE AND OTHER CREDITS:				
Fund balances:				
Reserved	-	-	74,021	74,021
Unreserved:				
Designated	259,466	592,195	-	851,661
TOTAL FUND BALANCE AND OTHER CREDITS	<u>259,466</u>	<u>592,195</u>	<u>74,021</u>	<u>925,682</u>
TOTAL LIABILITIES, FUND BALANCE AND OTHER	<u>\$ 266,065</u>	<u>\$ 593,501</u>	<u>\$ 76,020</u>	<u>\$ 935,586</u>

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



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

CITY OF IRON MOUNTAIN

**COMBINING STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCE
NONMAJOR GOVERNMENTAL FUNDS**

For the Year Ended June 30, 2007

	Capital Improvement	Water Capital Improvement	Downtown Development Authority	Total Nonmajor Governmental Funds
REVENUES:				
General property taxes	\$ -	\$ -	\$ 36,654	\$ 36,654
State grants	5,011	-	-	5,011
Federal grants	89,276	-	-	89,276
Interest and rents	16,124	28,974	3,391	48,489
Other	-	3,457	30,154	33,611
TOTAL REVENUES	110,411	32,431	70,199	213,041
EXPENDITURES:				
General government	-	-	49,601	49,601
Public works	23,948	-	-	23,948
Park and recreation	243,528	-	-	243,528
TOTAL EXPENDITURES	267,476	-	49,601	317,077
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	(157,065)	32,431	20,598	(104,036)
OTHER FINANCING SOURCES (USES):				
Operating transfers in	89,000	64,000	20,000	173,000
Operating transfers out	(58,000)	(80,814)	-	(138,814)
TOTAL OTHER FINANCING SOURCES (USES)	31,000	(16,814)	20,000	34,186
EXCESS OF REVENUES AND OTHER FINANCING SOURCES OVER EXPENDITURES AND OTHER FINANCING USES	(126,065)	15,617	40,598	(69,850)
FUND BALANCE, JULY 1	385,531	576,578	33,423	995,532
FUND BALANCE, JUNE 30	\$ 259,466	\$ 592,195	\$ 74,021	\$ 925,682

**ANDERSON, TACKMAN
& COMPANY, P.L.C.**
CERTIFIED PUBLIC ACCOUNTANTS



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

OTHER REPORTS

**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**

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

We have audited the financial statements of City of Iron Mountain as of and for the year ended June 30, 2007, and have issued our report thereon dated December 13, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control.

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

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

Compliance and Other Matters

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

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS



**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**

This report is intended solely for the information and use of the audit committee, management and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Anderson Tackman & Co. P.C.

ANDERSON, TACKMAN & COMPANY, PLC
Certified Public Accountants
Iron Mountain, Michigan

December 13, 2007

ANDERSON, TACKMAN
& COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS





ANDERSON, TACKMAN & COMPANY, P.L.C.
CERTIFIED PUBLIC ACCOUNTANTS

A Regional Firm with Offices in Michigan and Wisconsin

Principals - Iron Mountain:
David J. Johnson, CPA
Shane M. Ellison, CPA

Member of:
Private Companies Practice Section
American Institute of Certified
Public Accountants

December 13, 2007

Members of the City Council
City of Iron Mountain
Iron Mountain, Michigan

Dear Council Members:

We recently completed our audit of the City of Iron Mountain for the year ended June 30, 2007. Based upon our audit procedures and observations we make the following comments and recommendations:

Comment 1.

Statement on Auditing Standards (SAS) No. 99 was first applicable for the year ended June 30, 2004. In our letter of comments and recommendations dated August 18, 2004, we commented on the applicability of SAS No. 99 and how it emphasizes the importance of implementing procedures to understand the forms of fraud, evaluating fraud risk, mitigating fraud risk, and communicating to employees the Board's views and positions relative to ethical behavior. We also provided an exhibit from SAS No. 99 that provides guidance for the implementation of antifraud programs and controls.

As of June 30, 2007, we noted that no formal action relative to this matter was taken as of yet by the Council. Once again, we encourage you to do so. We have provided the SAS No. 99 Implementation Guide.

Recommendation

SAS No. 99 should be formally implemented. This will be more important for the year ended June 30, 2008 as new auditing standards related to policies, internal controls, and documentation of internal control systems become effective.

Comment 2.

Optimum segregation of duties, given limited resources of personnel and financial resources, is difficult to achieve. However, certain matters are more sensitive than others and in the case of the City of Iron Mountain an issue is the segregation of the responsibility for making and approving journal entries from investment and bank transfer activities.

Recommendation

Review job descriptions and assignments to optimize the segregation of duties, including the areas of general ledger control over journal entries and control over investments and bank transfers. Our recommendation is that those functions be separated if at all possible.

Comment 3.

Public Act 621 of 1978, as amended, provides that a city shall not incur expenditures in excess of amounts appropriated. The City budgeted expenditures on a functional basis.

During the year ended June 30, 2007, the City incurred expenditures in two funds in excess of the amounts appropriated as follows:

<u>Fund</u>	<u>Total Expended</u>	<u>Expenditure Appropriated</u>	<u>Excess Amount</u>
Major Street: Public Works	\$771,350	\$499,181	\$(272,169)
Local Street: Public Works	\$748,390	\$589,879	\$(158,511)

Note – These excess expenditures were primarily due to year-end adjustments to increase both revenues and expenditures related to federal grants overseen by MDOT.

Recommendation

While the complexities of the budget process make it difficult to avoid such variances, we encourage you to continue your efforts to avoid expenditures in excess of budgeted amounts.

Please understand, we do understand the complexities of dealing with millions of dollars of grant funds involving multiple funding sources.

Comment 4.

During the audit we examined many transactions in order to measure the City's compliance with various policies and to evaluate internal controls. Accordingly, we share the following:

Consumer Deposit Refund Checks

Consumer deposit refunds at the Water Utility Fund are approved solely by the Water Utility Fund accountant. The documentation should be reviewed and approved by a second responsible employee.

Purchasing

In one case we noted a purchase order was missing for an expenditure greater than \$250.

Policy requires alternative pricing of purchases of \$1,000 or more or documentation that alternatives are not available. In two cases this information was missing.

Please understand that we examined hundreds of transactions. For the most part policies were followed very well. These comments should serve as reminders that every effort should be made to make sure that things are not over looked.

Comment 5.

Section 8.6 of the Iron Mountain City Code addresses budgeting. Section 8.6 (a) is clear and is consistent with State of Michigan policy. Section 8.6 (a) allows the City to take into account unencumbered carryover fund balances to a current year for the initial budgeting process.

Section 8.6 (b) seemingly restricts the City from utilizing unencumbered carryover fund balances subsequent to adoption of the original budget, that is for budget amendment purposes.

December 13, 2007
City of Iron Mountain
Page Four

During our audit this matter was brought to our attention by City management and, indeed, it could very well be that the City was not in compliance with Section 8.6 (b) for the year ended June 30, 2007.

Recommendation

The City, together with the City attorney, should review Section 8.6 (b) of the city code, interpret that section and clarify it. In our opinion, Section 8.6 (a) is fine, Section 8.6 (b) is difficult to read and is inconsistent with 8.6 (a). Furthermore, given that 8.6 (a) is consistent with State of Michigan requirements, and consistent with accepted budgeting practices throughout the state, Section 8.6 (b) simply invites inadvertent noncompliance.

Very truly yours,

ANDERSON, TACKMAN & COMPANY, PLC

A handwritten signature in black ink, appearing to read 'L. Robert Schaut', written in a cursive style.

L. Robert Schaut, CPA
Senior Manager