Michigan Department of Treasury
496 (02/06)

Auditing Procedures Report

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

Local Unit of Government Type	Local Unit Name	County
☐County ☒City ☐Twp ☐Village ☐Other	City of Ionia	Ionia

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
June 30, 2006	September 21, 2006	November 10, 2006

We affirm that:

We are certified public accountants licensed to practice in Michigan.

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

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

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

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

We have enclosed the following:	Enclosed	Not Required (enter a brief justification)
Financial Statements	☒	
The letter of Comments and Recommendations	☒	
Other (Describe)	☒	N/A

Certified Public Accountant (Firm Name)	Telephone Number
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Authorizing CPA Signature	Printed Name	License Number
Aaron M. Stevens	Aaron M. Stevens, CPA	1101024055

City of Ionia
Ionia County, Michigan

FINANCIAL STATEMENTS

June 30, 2006

City of Ionia

Ionia County, Michigan

June 30, 2006

CITY COUNCIL AND ADMINISTRATION

Mr. Daniel Balice	Mayor
Mr. Gordon Kelley	Council Member
Ms. Monica Miller	Council Member
Mr. Kim Patrick	Council Member
Ms. Robin Woodbury	Council Member
Mr. James Smith	Council Member
Mr. Jeff Winters	Council Member
Ms. Brenda Cowling-Cronk	Council Member
Mr. Robert O'Mara	Council Member
Mr. Jason Eppler	City Manager
Ms. Catherine Pearce	Treasurer/Director of Finance
Ms. Karen Confer	City Clerk

City of Ionia

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City of Ionia

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Principals
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Ionia
Ionia, 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 City of Ionia, Michigan as of and for the year ended June 30, 2006, 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 opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes 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 presented component units, each major fund, and the aggregate remaining fund information of City of Ionia, Michigan, as of June 30, 2006, 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 September 21, 2006 on our consideration of the City of Ionia's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of 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 budgetary comparison information, as identified in the table of contents, are not a required part of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise City of Ionia's basic financial statements. The accompanying other supplementary information, as identified in the table of contents, is presented for the purpose of additional analysis and is not a required part of the basic financial statements. The other supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2006

City of Ionia

MANAGEMENT'S DISCUSSION AND ANALYSIS

June 30, 2006

The intent of the management's discussion and analysis is to provide highlights of the City of Ionia's financial activities for the fiscal year ended June 30, 2006. Readers are encouraged to read this section in conjunction with the transmittal letter and the accompanying basic financial statements.

FINANCIAL HIGHLIGHTS

Net Assets: The total assets of the City of Ionia did exceed its liabilities by $17,248,013 (net assets). Restricted capital assets include $581,688 from bond proceeds that are to be used in the FY 06-07 to pay for capital asset projects that have been bid but were not constructed at June 30, 2006, $827,217 for future debt service payments, and other restrictions for streets and grant activities, resulting in an unrestricted net assets balance of $1,864,309. Working capital, the difference between Current Assets and Current Liabilities, shows a positive cash flow to meet the City's ongoing obligations. Governmental activities net assets were $9,246,048 and Business-type activity net assets were $8,001,965. Component unit net assets were $(5,727,710). It is typical for component units to have debt without a corresponding capital asset because the capital purchases/improvements are turned over to the governmental funds.

Unreserved Fund Balance: At the end of the current fiscal year, unreserved fund balances for City of Ionia's governmental funds were $472,464, or 4.4% of total annual expenditures and other financing uses. The General Fund's fund balance decreased by $199,116. Unreserved Fund Balance allows for fluctuations in cash flows.

Capital and Long-term Debt Activities: The governmental activities of the primary government issued new debt for the fiscal year for capital purchases of four (4) pick-up trucks. The business-type activities issued a $1.5 million bond through the County Board of Public Works for utility improvements throughout the City.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual financial report of the City of Ionia consists of the following components: 1) Independent Auditors Report, 2) Management's Discussion and Analysis and 3) the Basic Financial Statements including notes to the financial statement, and 4) Required Supplementary Information such as budget to actual comparisons and Other Supplementary Information including combining financial statements for all nonmajor governmental funds and proprietary funds.

Government-wide Financial Statements

The set of government-wide financial statements are made up of the Statement of Net Assets and the Statement of Activities, which report information about the City of Ionia as a whole, and about its activities. Their purpose is to assist in answering the question, is the City of Ionia, in its entirety, better or worse off as a result of this fiscal year's activities? These statements, which include all non-fiduciary assets and liabilities, are reported on the accrual basis of accounting, similar to a private business. This means revenues are accounted for when they are earned and expenses are accounted for when incurred, regardless of when the actual cash is received or disbursed.

The Statement of Net Assets represents all the City of Ionia's assets and liabilities, recording the difference between the two as "net assets". Over time, increases or decreases in net assets measure whether the City's financial position is improving or deteriorating.

The Statement of Activities presents information showing how the City's net assets changed during FY 05-06. All changes in net assets are reported based on the period for which the underlying events giving rise to the change occurs, regardless of the timing of related cash flows.

Therefore, revenues and expenses are reported in these statements for some items that will only result in cash flows in future financial periods, such as uncollected taxes and earned but unused employee annual leave.

Both statements report the following activities:

Governmental Activities - Most of the City of Ionia's basic services are reported under this category. Taxes, charges for services and intergovernmental revenue primarily fund these services. Most of the City's general government departments such as Public Safety, the City Council, Public Works, and Recreation programs are reported under these activities. This also includes the activities such as the Major and Local Street maintenance.

Business-type Activities - These activities operate like private businesses. The City of Ionia charges fees to recover the cost of the services provided. The City's Water & Sewer Systems are considered business-type activities as well as the Theatre and Dial-A-Ride.

Discretely Presented Component Units - Discretely Presented Component Units are legally separate organizations for which the City Council appoints a majority of the organization's policy board and there is a degree of financial accountability to the City of Ionia. Organizations included as component units are the Downtown Development Authority and the Local Development Finance Authority.

As stated previously, the government-wide statements report on an *accrual* basis of accounting. However, the governmental funds report on a *modified accrual* basis. Under modified accrual accounting, revenues are recognized when they are measurable and available to pay obligations of the fiscal period; expenditures are recognized when they are due to be paid from available resources.

Because of the different basis of accounting between the fund statements (described below) and the government-wide statements, pages 4 and 6 present reconciliations between the two statement types.

Fund Financial Statements

The fund financial statements provide information on the City's significant (major) funds, and aggregated nonmajor funds. Traditional users of governmental financial statements will find the Fund Financial Statements presentation more familiar.

A fund is a fiscal and accounting entity with a self-balancing set of accounts that the City uses to keep track of specific sources of funding and spending for a particular purpose. State law or policy requires some separate funds, such as funds required by bond or grant agreements. Funds are also utilized to track specific operations; these include the internal services funds (Central Garage) as well as enterprise funds such as the Water & Sewer Funds.

The *basic financial statements* report major funds as defined by the Government Accounting Standards Board (GASB) in separate columns. Statement 34 defines a "major fund" as the General Fund, and any governmental or enterprise fund which has either total assets, total liabilities, total revenues or total expenditures/expenses that equal at least ten (10) percent of those categories for either the governmental funds or the enterprise funds *and* where the individual fund total also exceeds five (5) percent of those categories for governmental and enterprise funds combined. The major funds for City of Ionia include the General Fund, Grant Projects, Dial-A-Ride and the Water & Sewer Funds. All other funds are classified as nonmajor funds and are reported in aggregate by the applicable fund type. The City of Ionia includes detailed information on its nonmajor funds in other supplementary sections of this report.

The City of Ionia's funds are divided into three categories - governmental, proprietary, and fiduciary - and use different accounting approaches:

Governmental Funds - Most of the City's basic services are reported in the governmental funds. The focus of these funds is how cash and other financial assets that can be readily converted to cash, flow in and out during the course of the fiscal year and how the balances left at year-end are available for spending on future services. Consequently, the governmental fund financial statements provide a detailed *short-term* view that helps determine whether there are more or fewer financial resources that may be expended in the near future to finance the City of Ionia programs. Governmental funds include the *General Fund,* as well as *Special Revenue Funds* (use of fund balance is restricted), *Capital Projects Funds* (used to report major capital acquisitions and construction), and *Debt Service Funds* (accounts for resources used to pay long-term debt principal and interest).

Proprietary Funds - Services for which the City charges customers a fee are generally reported in proprietary funds. Proprietary funds use the same *accrual* basis of accounting used in the government-wide statements and by private business. There are two types of proprietary funds. *Enterprise funds* report activities that provide supplies and/or services to the general public. *Internal Service funds* report activities that provide supplies or service to the City of Ionia's other operations, such as the Central Garage Fund. Internal Service funds are reported as governmental activities on the government-wide statements.

Fiduciary Funds - The City of Ionia acts as a trustee or fiduciary in certain instances. The City's fiduciary activities are reported in separate statements of Fiduciary Net Assets on page 15. This fund is reported using the accrual basis of accounting. The government-wide statements *exclude* the fiduciary fund activities and balances because these assets are not available to the City of Ionia to fund its operations. The taxes that are collected during the year are paid to the taxing unit of government.

Notes to the Financial Statements

The Notes to the Financial Statements provide additional information that is essential to a full understanding of the detail provided in the government-wide and fund financial statements. The Notes can be found beginning on page 18 of this report.

Other Information

Following the Basic Financial Statements is additional Required Supplementary Information (RSI), which further explains and supports the information in the financial statements. RSI includes a budgetary comparison schedules for the General Fund.

Other Supplementary Information includes combining financial statements for nonmajor governmental funds, budgetary schedules for nonmajor Special Revenue Funds, and a detailed schedule of revenues, expenditures, and change in fund balance for the Grant Projects Fund. The nonmajor funds, except for the fiduciary funds, are added together, by fund type, and are presented in aggregate single columns in the appropriate basic financial statements.

FINANCIAL ANALYSIS OF THE CITY OF IONIA AS A WHOLE

The Statement of Net Assets and the Statement of Activities provide the information to determine how the City of Ionia did financially during FY 05-06. The net assets and the changes in them can indicate whether financial health is improving or deteriorating. However, other non-financial factors such as changes in economic conditions, and new or changed government legislation also need to be considered in determining the City's financial health.

In examining the composition of these net assets, the reader should note that governmental activities net assets are invested in capital assets (i.e., streets, buildings, land, vehicles, equipment, etc). These assets are used to provide services to the resident and they are not available to pay salaries, operational expenses, or fund capital projects.

NET ASSETS AS OF JUNE 30, 2006

	Governmental Activities		Business-type Activities		Total Primary Government	
	2005	2006	2005	2006	2005	2006
Current and Other Assets	$ 1,391,961	$ 1,758,648	$ 5,574,979	$ 4,332,895	$ 6,966,940	$ 6,091,543
Capital Assets	13,646,307	12,765,786	18,745,931	21,594,468	32,392,238	34,360,254
Total Assets	15,038,268	14,524,434	24,320,910	25,927,363	39,359,178	40,451,797
Current Liabilities	1,286,357	1,734,929	1,079,998	984,815	2,366,455	2,719,644
Noncurrent Liabilities	4,004,742	3,543,457	16,011,930	16,940,583	20,016,672	20,484,040
Total Liabilities	5,291,099	5,278,386	17,091,928	17,925,398	22,383,127	23,203,684
Net Assets						
Invested in capital Assets - (Net of related debt)	9,444,873	9,020,711	4,777,135	4,882,656	14,222,008	13,903,367
Restricted	30,078	71,432	3,236,829	1,408,905	3,266,907	1,480,337
Unrestricted	272,218	153,905	(799,258)	1,710,404	(527,040)	1,864,309
Total Net Assets	**$ 9,747,169**	**$ 9,246,048**	**$ 7,214,706**	**$ 8,001,965**	**$ 16,961,875**	**$ 17,248,013**

The following condensed financial information was derived from the government-wide Statement of Activities and reflects how the City of Ionia's net assets changed during the fiscal year.

CHANGES IN NET ASSETS FOR THE FISCAL YEAR ENDED JUNE 30, 2006

	Governmental Activities		Business-type Activities		Total Primary Government	
Revenues	2005	2006	2005	2006	2005	2006
Program Revenues:						
Charges for Services	$ 1,092,579	$ 1,173,195	$ 3,110,847	$ 3,536,253	$ 4,203,426	$ 4,709,448
Operating Grants and Contributions	2,208,465	1,361,570	1,246,137	1,206,164	3,454,602	2,567,734
Capital Grants and Contributions	2,220	651,867	106,076	161,543	108,296	813,410
General Revenues:						
Property Taxes	722,790	681,141	67,356	69,026	790,146	750,167
Income Tax	1,648,482	1,596,311	-	-	1,648,482	1,596,311
State Shared Revenue	937,898	920,263	-	-	937,898	920,263
Investment Earnings	9,690	8,019	67,282	113,931	76,972	121,950
Miscellaneous	199,450	192,641	482,468	624,950	681,918	817,591
Total Revenues	**6,821,574**	**6,585,007**	**5,080,166**	**5,711,867**	**11,901,740**	**12,296,874**

	Governmental Activities		Business-type Activities		Total Primary Government	
Expenses	**2005**	**2006**	**2005**	**2006**	**2005**	**2006**
General Government	$ 1,871,188	$ 1,801,926	$ -	$ -	$ 1,871,188	$ 1,801,926
Public Safety	2,197,288	2,477,640	-	-	2,197,288	2,477,640
Public Works	1,437,124	2,054,304	-	-	1,437,124	2,054,304
Health and Welfare	33,885	33,885	-	-	33,885	33,885
Community and Economic Develop.	132,889	81,758	-	-	132,889	81,758
Recreation and Cultural	1,413,226	490,271	-	-	1,413,226	490,271
Interest on long-term debt	300,044	211,170	-	-	300,044	211,170
Dial-A-Ride	-	-	760,785	745,241	760,785	745,241
Sewer System	-	-	1,868,551	2,014,401	1,868,551	2,014,401
Water System	-	-	1,665,569	1,815,604	1,665,569	1,815,604
Theatre	-	-	256,317	284,536	256,317	284,536
Total Expenses	**7,385,644**	**7,150,954**	**4,551,222**	**4,859,782**	**11,936,866**	**12,010,736**
Transfers	92,035	64,826	(92,035)	(64,826)	-0--	-0-
Increase (Decrease) in Net Assets	**(472,035)**	**(501,121)**	**436,909**	**787,259**	**(35,126)**	**286,138**
Net Assets - Beginning	10,219,204	9,747,169	6,809,732	7,214,706	17,028,936	16,961,875
Prior Period Adjustment	-	-	(31,935)	-	(31,935)	-
Net Assets - Ending	**$ 9,747,169**	**$ 9,246,048**	**$7,214,706**	**$ 8,001,965**	**$ 16,961,875**	**$ 17,248,013**

Governmental Activities:

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Changes in Net Assets shows that the Primary Governmental operations had a reduction of net assets by a total of $(501,121). During the year, the governmental activities had excess depreciation over capital outlay of $880,521. While depreciation expense does not affect cash, it does affect the capital assets.

Revenues: The three largest revenue categories were Income Taxes at 24%, Operating Grants and Contributions at 21%, and Charges for Services at 18%. The City of Ionia implemented a City Income Tax in 1994. Residents (individual and business) pay 1% on net earnings, and Non-Residents pay ½%. The City reduced the 15 Operating mills of property tax to 3 mills once the income tax was approved. The 3 mills of operating and the income taxes are not assigned to any particular activity. In FY 04-05 and FY 05-06 the City levied 2 mills per PA 33, for maintaining Public Safety. This millage will also be collected on the 2006 winter tax bills.

Expenses: Public Works (roads and sidewalks) totaled $2,054,304, or 29% of the total governmental activities expenses. General Government which includes fringe benefits (including Public Safety), administration, elections, code enforcement, trash pickup and building expenses was 25% of the total governmental activities expenses at $1,801,926. Public Safety activities totaled $2,477,640, or 35%, while Recreation and Cultural was $490,271, or 7%.

Business-type Activities:

The Change in Net Assets for business-type activity shows an increase of $787,259. This increase is primarily due to connection fees paid for water service by new development in neighboring townships. The City does not fund Depreciation expense in order to keep user fees reasonable for residents. This approach does require the use of bonds and loans in order to pay for capital improvements to assets, which ultimately ties the cost of improvements to the users of the improvements.

FINANCIAL ANALYSIS OF THE CITY OF IONIA MAJOR FUNDS

As the City of Ionia completed fiscal year 2006, its governmental funds reported *combined* decrease in fund balances of $(187,626).

The net changes are summarized in the following chart:

	General Fund	Grant Projects	Nonmajor Governmental Funds
Fund Balance 6/30/05	$ 558,026	$ 28,633	$ 154,468
Fund Balance 6/30/06	358,910	69,351	125,240
Net Change	$(199,116)	$ 40,718	$(29,228)

General Fund: The General Fund is the chief operating fund of the City of Ionia. Unless otherwise required by statue, contractual agreement or Council policy, all City of Ionia revenues and expenditures are recorded in the General Fund. As of June 30, 2006, the General Fund reported an unreserved fund balance of $353,992. This amount is a decrease of $199,116 from the fund balance of $558,026 reported as of June 30, 2005.

The General Fund fiscal year 2006 revenues exceeded expenditures by $387,771. Transfers Out for use in the Recreation, Debt Services and Local Streets Funds utilized the budgeted excess.

General Fund Budgetary Highlights: General Fund revenues and other financing sources totaled $5,066,540; $215,565 less than the final amended budget. The difference is a 4.2% decrease from the final budget; the widest variation was in homeland security grant revenue. A portion of the reduction in the amount received was due to an over-estimation of income tax revenues.

The City of Ionia expenditures and other financing uses totaled $5,265,656; $101,824 less than the final amended budget. Expenditures were lower than anticipated due primarily to an over-estimation of the amount to be spent implementing the Homeland Security Grant

Grant Projects: The Grant Projects Fund received federal and state grants as well as contributions from the Sewer Fund, Water Fund, and the Ionia Area Sewage Disposal System to finance various capital projects. The most significant expenditures for this fund for the fiscal year ended June 30, 2006, were Washington, Stevenson, and Morse Street project and the High and Baldie Street project. These projects accounted for 72% of the total expenditures of the Grant Projects Fund.

Dial-A-Ride: The Dial-A-Ride (DAR) fund had an increase to its net assets of $42,047. DAR's operating revenues were more than last year. Operating Expenses decreased by $15,544 from the previous year.

Depreciation expense, of $159,610 is a non-cash expense, which represents the reduction in the value of the facility and busses. Due to the nature of the DAR's capital improvement plan, this cost is not considered in the budget process because of the capital grants available through State and Federal Funding.

Water Fund: Net assets of the Water Fund increased by $711,951. The source of this increase was twofold: first, increased connection fee revenue due to development in Berlin Township; and, second, increases in the water commodity and debt service charges effective July 1, 2005. Depreciation expense on the capital assets for the year was $457,414. In the past seven years, the Water Fund has bonded for $15,162,000 in water system improvements, including the most recent Utility Improvement Bond issued on May 1, 2006. The State of Michigan Department of Corrections is a major user of municipal water in the City and has committed to paying a significant portion of the outstanding water system debt service. Operating revenues increased by 25% from FY 04-05 due to a rate increase. Interest expense for the year increased by $32,303.

Sewer Fund: The Sewer Fund had an increase to its net assets of $72,741. The depreciation expense on the capital assets for the year was $56,143. In the past seven years, the Sewer Fund has bonded for $4,452,000 of sewer system improvements, including the most recent Utility Improvement Bond issued on May 1, 2006. As a major sewer user - the State of Michigan, Department of Corrections has committed to paying 69.44% of the debt on the 1976 & 1990 expansion of the treatment plant, which helps to keep rates at a reasonable level. Each spring a rate study is completed to determine the usage and debt service fee required to meet obligations. The most recent rate study proposed an increase in both the sewer commodity and debt service charges. Based on the study's recommendation, these two charges were increased on July 1, 2005.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of Fiscal Year 05-06, the City of Ionia had invested $12,765,786 and $21,498,796 (net of accumulated depreciation) for governmental and business-type capital assets respectively. Accumulated depreciation was $8,274,026 for the governmental activities and $8,122,288 for the business-type activities. Depreciation charges for the fiscal year totaled $1,046,731 for the governmental activities and $711,636 for the business-type activities. For more detailed information related to capital assets, refer to Note F to the financial statements.

	Governmental Activities	Business-type Activities	TOTAL
Land	$ 238,370	$ 1,219,180	$ 1,457,550
Construction in progress	-	3,472,578	3,472,578
Land Improvements, net	1,192,433	1,423	1,193,856
Buildings, net	845,250	-	845,250
Vehicles, net	1,036,009	196,416	1,232,425
Furniture/Other, net	1,515,148	2,110,216	3,625,364
Infrastructure, net	7,938,576	-	7,938,576
Structures and improvements	-	14,594,655	14,594,655
Capital Assets, net	**$12,765,786**	**$21,594,468**	**$34,360,254**

Long-term Debt

As of June 30, 2006, the City of Ionia had $21,529,331 in bonds, notes and accumulated vacation and sick time outstanding for the primary government. Of this amount, $20,198,500 is bonds, $490,756 is sick and vacation, and $840,075 is loans and notes (refer to Note G). This level of net obligation is $467,631 more than the obligation recorded as of June 30, 2005. The increase was due to new loans from equipment purchases and the $1.5 million utility bond issued by the County Board of Public Works.

Outstanding Debt and Debt Limit as of June 30, 2006:

	2006
Direct Debt:	
State Equalized Valuation	$ 157,401,114
Plus Assessed Value of IFT Certificates	22,755,872
Total Valuation	$ 180,156,986
DEBT LIMIT (10% of SEV)	$ 18,015,699

PRIMARY GOVERNMENT	6/30/2005	Additions	Reductions	6/30/2006
Governmental Activities:				
* Bonds	$ 3,220,000	$ -	$ 315,000	$ 2,905,000
* Loans	981,434	75,348	216,707	840,075
DDA Bonds	5,730,000	-	710,000	5,020,000
* LDFA Loan	697,769	35,236	11,500	721,505
Accumulated Vacation & Sick	446,820	9,974	-	456,794
TOTAL Governmental Activities:	11,076,023	120,558	1,253,207	9,943,374
Business Type Activities				
* Water & Sewer Bond	16,383,000	1,350,000	439,500	17,293,500
Accumulated Vacation & Sick	30,446	3,516	-	33,962
TOTAL Business Type Activities	16,413,446	1,353,516	439,500	17,327,462
TOTAL REPORTING ENTITY	$ 27,489,469	$1,474,074	$ 1,692,707	27,270,836
* Less Bonds which are not included in Debt Margin	(20,052,203)			(21,759,980)
TOTAL DEBT LIMITED TO 10% OF SEV	7,437,266			5,510,856
Legal Debt Margin not currently utilized	$ 8,311,496			$ 12,504,843

(*) Bonds not included: Special Assessment Bond, Transportation Bonds, Revenue Bonds, Public Health Pollution Abatement, Installment Purchases

Limitations on Debt:

State statue limits the City of Ionia debt obligations to 10 percent of the current state equalized value (SEV) with deductions from the total debt for special assessments, revenue bonds, and transportation bonds. The City of Ionia's SEV as of June 30, 2006 was $180 million; therefore the City's debt limitation was $18 million. The City remains below its legal debt limit by $12.5 million after adjusting the total debt of $21.7 million by the bonds that are exempt from the calculations. The bonds that are currently outstanding represent a broad range of city-wide improvements to utilities, roads, equipment, street lights, and sidewalks. These capital projects replace outdated equipment and deteriorated infrastructure.

CURRENTLY KNOWN FACTS, DECISIONS, OR CONDITIONS & EFFECTS

Through sound financial processes, the City of Ionia continues to provide high quality services to its residents while replacing aging infrastructure. Property tax and utility rates continue to rank among the lowest in West Michigan. These low rates remain attractive to business and industry, resulting in new businesses locating in Ionia while existing businesses grow. Continued business growth translates into increased income tax revenues to the City. The increased business base in the area is beginning to lead to new residential development in the area, adding much needed new homes to the City's aging housing stock.

Over the next few fiscal years, the City will continue its efforts to keep fund expenditures from increasing above the rate of inflation, improve City services while retiring outstanding debt and building fund reserves in many funds.

CONTACTING THE CITY OF IONIA

This financial report is designed to provide our readers with an overview of the City's finances. If there are questions about this report, contact the City of Ionia Treasurer's Office at (616) 527-4170, extension 120 or via email: dirfinance@ci.ionia.mi.us, or City Manager, Jason Eppler at extension 223, or via email: ioniamanager@city.ionia.mi.us.

BASIC FINANCIAL STATEMENTS

City of Ionia

STATEMENT OF NET ASSETS

June 30, 2006

	Primary Government			
	Governmental Activities	Business-type Activities	Total	Component Units
ASSETS				
Current assets				
Cash and cash equivalents	$ 693,470	$ 870,291	$ 1,563,761	$ (337,064)
Receivables	410,600	750,720	1,161,320	18,449
Due from other governmental units	397,001	164,308	561,309	-
Inventory	-	31,159	31,159	-
Prepaid expenses	4,918	838	5,756	-
Internal balances	252,659	(252,659)	-0-	-
Total current assets	1,758,648	1,564,657	3,323,305	(318,615)
Noncurrent assets				
Cash and cash equivalents - restricted	-	959,243	959,243	-
Investments - restricted	-	15,000	15,000	-
Deposit with county	-	1,793,995	1,793,995	-
Capital assets not being depreciated	238,370	4,691,758	4,930,128	375,256
Capital assets, net of accumulated depreciation	12,527,416	16,902,710	29,430,126	-
Total noncurrent assets	12,765,786	24,362,706	37,128,492	375,256
TOTAL ASSETS	14,524,434	25,927,363	40,451,797	56,641
LIABILITIES				
Current liabilities				
Accounts payable	783,520	125,745	909,265	3,288
Accrued liabilities	89,204	10,341	99,545	-
Accrued interest payable	165,777	219,702	385,479	39,558
Due to other governmental units	-	7,835	7,835	-
Deferred revenue	38,016	107,545	145,561	-
Current portion of compensated absences	114,199	24,147	138,346	-
Current portion of long-term debt	544,213	489,500	1,033,713	715,000
Total current liabilities	1,734,929	984,815	2,719,744	757,846
Noncurrent liabilities				
Customer deposits payable	-	64,114	64,114	-
Advance from State	-	24	24	-
Compensated absences	342,595	72,445	415,040	-
Noncurrent portion of long-term debt	3,200,862	16,804,000	20,004,862	5,026,505
Total noncurrent liabilities	3,543,457	16,940,583	20,484,040	5,026,505
TOTAL LIABILITIES	5,278,386	17,925,398	23,203,784	5,784,351
NET ASSETS				
Invested in capital assets, net of related debt	9,020,711	4,882,656	13,903,367	(4,644,744)
Restricted for:				
Debt service	-	827,217	827,217	-
Grant activities	69,351	-	69,351	-
Capital projects	-	581,688	581,688	-
Streets	2,081	-	2,081	-
Unrestricted	153,905	1,710,404	1,864,309	(1,082,966)
TOTAL NET ASSETS	$ 9,246,048	$ 8,001,965	$ 17,248,013	$ (5,727,710)

See accompanying notes to financial statements.

City of Ionia

STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Functions/Programs	Expenses	Program Revenues: Charges for Services	Program Revenues: Operating Grants and Contributions	Program Revenues: Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets — Primary Government: Governmental Activities	Primary Government: Business-type Activities	Primary Government: Total	Component Units
Primary government:								
Governmental activities								
General government	$ 1,801,926	$ 536,833	$ -	$ -	$ (1,265,093)	$ -	$ (1,265,093)	$ -
Public safety	2,477,640	356,218	51,439	650,242	(1,419,741)	-	(1,419,741)	-
Public works	2,054,304	207,898	1,097,274	1,625	(747,507)	-	(747,507)	-
Health and welfare	33,885	-	-	-	(33,885)	-	(33,885)	-
Community and economic development	81,758	-	94,019	-	12,261	-	12,261	-
Recreation and cultural	490,271	72,246	54,013	-	(364,012)	-	(364,012)	-
Interest on long-term debt	211,170	-	64,825	-	(146,345)	-	(146,345)	-
Total governmental activities	7,150,954	1,173,195	1,361,570	651,867	(3,964,322)	-0-	(3,964,322)	-0-
Business-type activities:								
Dial-a-ride	745,241	124,061	416,692	161,543	-	(42,945)	(42,945)	-
Sewer system	2,014,401	1,683,928	323,104	-	-	(7,369)	(7,369)	-
Water system	1,815,604	1,490,729	466,368	-	-	141,493	141,493	-
Theatre	284,536	237,535	-	-	-	(47,001)	(47,001)	-
Total business-type activities	4,859,782	3,536,253	1,206,164	161,543	-0-	44,178	44,178	-0-
Total primary government	$ 12,010,736	$ 4,709,448	$ 2,567,734	$ 813,410	(3,964,322)	44,178	(3,920,144)	-0-
Component units:								
Downtown Development Authority	$ 434,538	$ -	$ -	$ -	-	-	-0-	(434,538)
Local Development Finance Authority	38,136	-	-	-	-	-	-0-	(38,136)
Total component units	$ 472,674	$ -0-	$ -0-	$ -0-	-0-	-0-	-0-	(472,674)
General revenues:								
Property taxes					681,141	69,026	750,167	1,362,230
Income taxes					1,596,311	-	1,596,311	-
State shared revenue					920,263	-	920,263	-
Investment earnings					8,019	113,931	121,950	5,824
Miscellaneous					192,641	624,950	817,591	-
Transfers					64,826	(64,826)	-0-	-
Total general revenues and transfers					3,463,201	743,081	4,206,282	1,368,054
Change in net assets					(501,121)	787,259	286,138	895,380
Net assets, beginning of the year					9,747,169	7,214,706	16,961,875	(6,623,090)
Net assets, end of the year					$ 9,246,048	$ 8,001,965	$ 17,248,013	$ (5,727,710)

See accompanying notes to financial statements.

City of Ionia

GOVERNMENTAL BALANCE SHEET

June 30, 2006

	General	Grant Projects	Nonmajor Governmental Funds	Total Governmental Funds
ASSETS				
Cash and cash equivalents	$ 245,697	$ 122,727	$ 76,877	$ 445,301
Receivables				
Taxes	202,302	-	10,912	213,214
Accounts	141,101	-	950	142,051
Special assessments	20,406	-	716	21,122
Due from other funds	5,967	251,966	-	257,933
Due from other governmental units				
State	205,356	38,060	96,554	339,970
Local	19,164	37,867	-	57,031
Prepaids	4,918	-	-	4,918
TOTAL ASSETS	$ 844,911	$ 450,620	$ 186,009	$ 1,481,540
LIABILITIES				
Accounts payable	$ 364,272	$ 381,269	$ 31,515	$ 777,056
Accrued wages	68,934	-	12,273	81,207
Other accrued liabilities	5,285	-	795	6,080
Due to other funds	-	-	5,274	5,274
Deferred revenue	47,510	-	10,912	58,422
TOTAL LIABILITIES	486,001	381,269	60,769	928,039
FUND EQUITY				
Fund balances				
Reserved for				
Debt service	-	-	6,424	6,424
Sick pay	-	-	344	344
Prepaids	4,918	-	-	4,918
Grant activity	-	69,351	-	69,351
Unreserved				
Undesignated, reported in:				
General fund	353,992	-	-	353,992
Special revenue funds	-	-	14,819	14,819
Capital project funds	-	-	103,653	103,653
TOTAL FUND EQUITY	358,910	69,351	125,240	553,501
TOTAL LIABILITIES AND FUND EQUITY	$ 844,911	$ 450,620	$ 186,009	$ 1,481,540

See accompanying notes to financial statements.

City of Ionia

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

June 30, 2006

Total fund balance - governmental funds		$ 553,501
Amounts reported for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is	$ 21,039,812	
Accumulated depreciation is	(8,274,026)	
Capital assets, net		12,765,786
Internal Service Funds are used by management to charge the costs of certain activities to individual funds. The assets and liabilities of the Internal Service Funds are included in the governmental activities in the Government-wide Statement of Net Assets		
Net assets of governmental activities accounted for in Internal Service Funds	693,331	
Net capital assets of Internal Service Funds included in total capital assets above	(626,446)	
Long-term liabilities of Internal Service Fund included in total long-term liabilities below	207,116	
		274,001
Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:		
Deferred revenue		20,406
Long-term liabilities are not due and payable in the current period and therefore are not reported in the Governmental Funds Balance Sheet. Long-term liabilities at year-end consist of:		
Bonds, loans, and notes payable	3,745,075	
Accrued interest payable	165,777	
Compensated absences	456,794	
		(4,367,646)
Net assets of governmental activities		$ 9,246,048

See accompanying notes to financial statements.

City of Ionia

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS

Year Ended June 30, 2006

	General	Grant Projects	Nonmajor Governmental Funds	Totals Governmental Funds
REVENUES				
Taxes	$ 2,056,926	$ -	$ 220,425	$ 2,277,351
Licenses and permits	104,937	-	-	104,937
Intergovernmental	1,720,432	459,062	750,132	2,929,626
Charges for services	884,805	-	64,411	949,216
Fines and forfeits	42,947	-	-	42,947
Interest and rents	65,357	-	19,935	85,292
Other	173,835	-	29,949	203,784
TOTAL REVENUES	5,049,239	459,062	1,084,852	6,593,153
EXPENDITURES				
Current				
General government	1,907,551	-	-	1,907,551
Public safety	2,340,793	-	-	2,340,793
Public works	63,366	-	732,080	795,446
Health and welfare	33,885	-	-	33,885
Community and economic development	81,758	-	-	81,758
Recreation and cultural	65,299	-	303,244	368,543
Capital outlay	-	3,600,863	262,704	3,863,567
Debt service	168,816	-	495,628	664,444
TOTAL EXPENDITURES	4,661,468	3,600,863	1,793,656	10,055,987
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	387,771	(3,141,801)	(708,804)	(3,462,834)
OTHER FINANCING SOURCES (USES)				
Transfers in	17,301	3,182,519	758,111	3,957,931
Transfers out	(604,188)	-	(78,535)	(682,723)
TOTAL OTHER FINANCING SOURCES (USES)	(586,887)	3,182,519	679,576	3,275,208
NET CHANGE IN FUND BALANCES	(199,116)	40,718	(29,228)	(187,626)
Fund balances, beginning of year	558,026	28,633	154,468	741,127
Fund balances, end of year	$ 358,910	$ 69,351	$ 125,240	$ 553,501

See accompanying notes to financial statements.

City of Ionia

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES

Year Ended June 30, 2006

Net change in fund balances - total governmental funds		$ (187,626)
Amounts reported for governmental activities in the statement of activities are different because:		
Capital outlays are reported as expenditures in governmental funds. However, in the statement of activities, the cost of capital assets is allocated over their estimated useful lives as depreciation expense. In the current period, these amounts are:		
Depreciation expense	$ (1,046,731)	
Capital outlay	166,210	
Excess of depreciation expense over capital outlay		(880,521)
Internal service funds are used by management to charge the costs of certain activities to individual funds.		
Increase in Net Assets of Internal Service Funds	101,236	
Depreciation expense of Internal Service Funds included in the total above	103,812	
Capital outlay of Internal Service Funds included in the total above	(84,856)	
Change in long-term liabilities of Internal Service Funds included in the totals below	(2,099)	
		118,093
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Debt principal retirement	531,707	
Loan proceeds	(75,348)	
		456,359
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.		(8,146)
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:		
Decrease in accrued interest payable	10,694	
(Increase) in accrued compensated absences	(9,974)	
		720
Change in net assets of governmental activities		$ (501,121)

See accompanying notes to financial statements.

City of Ionia

STATEMENT OF NET ASSETS - PROPRIETARY FUNDS

June 30, 2006

	Business-type		
	Dial-A-Ride	Sewer System	Water System
ASSETS			
Current assets			
Cash and cash equivalents	$ 184,040	$ (88,563)	$ 769,486
Accounts receivable	-	187,843	557,781
Taxes receivable	5,096	-	-
Due from other governmental units - State	50,948	113,360	-
Prepaid expenses	838	-	-
Inventory	-	-	31,159
Total current assets	240,922	212,640	1,358,426
Noncurrent assets			
Cash and cash equivalents - restricted	-	-	959,243
Investments - restricted	-	15,000	-
Deposits with County	-	815,662	978,333
Capital assets not being depreciated	25,000	2,125,018	2,494,847
Capital assets, net of accumulated depreciation	1,043,556	2,515,969	13,034,501
Total noncurrent assets	1,068,556	5,471,649	17,466,924
TOTAL ASSETS	1,309,478	5,684,289	18,825,350
LIABILITIES			
Current liabilities			
Accounts payable	19,568	6,428	85,747
Accrued interest payable	-	87,676	132,026
Accrued wages	7,628	84	841
Other accrued liabilities	584	6	64
Due to other funds	693	117,099	134,867
Due to other governmental units - local	-	7,835	-
Deferred revenue	6,971	-	100,574
Current portion of accrued vacation and sick pay	15,657	4,191	4,299
Current portion of long-term debt	-	24,500	465,000
Total current liabilities	51,101	247,819	923,418
Noncurrent liabilities			
Customer deposits payable	-	-	64,114
Advance from State	24	-	-
Accrued vacation and sick pay	46,973	12,574	12,898
Bonds and notes payable	-	4,384,000	12,420,000
Total noncurrent liabilities	46,997	4,396,574	12,497,012
TOTAL LIABILITIES	98,098	4,644,393	13,420,430
NET ASSETS			
Invested in capital assets, net of related debt	1,068,556	575,850	2,882,673
Restricted for debt service	-	-	827,217
Restricted for capital projects	-	343,363	238,325
Unrestricted	142,824	120,683	1,456,705
TOTAL NET ASSETS	$ 1,211,380	$ 1,039,896	$ 5,404,920

See accompanying notes to financial statements.

Activities		Governmental Activities
Nonmajor Business-type Fund (Theatre)	Total	Internal Service (Central Garage)
$ 5,328	$ 870,291	$ 248,169
-	745,624	34,213
-	5,096	-
-	164,308	-
-	838	-
-	31,159	-
5,328	1,817,316	282,382
-	959,243	-
-	15,000	-
-	1,793,995	-
46,893	4,691,758	-
308,684	16,902,710	626,446
355,577	24,362,706	626,446
360,905	26,180,022	908,828
14,002	125,745	6,464
-	219,702	3,884
1,053	9,606	1,780
81	735	137
-	252,659	-
-	7,835	-
-	107,545	-
-	24,147	3,238
-	489,500	77,240
15,136	1,237,474	92,743
-	64,114	-
-	24	-
-	72,445	9,713
-	16,804,000	113,041
-0-	16,940,583	122,754
15,136	18,178,057	215,497
355,577	4,882,656	436,165
-	827,217	-
-	581,688	-
(9,808)	1,710,404	257,166
$ 345,769	$ 8,001,965	$ 693,331

City of Ionia

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

Year Ended June 30, 2006

	Business-type	
	Dial-A-Ride	Sewer System
OPERATING REVENUES		
Charges for services	$ 124,061	$ 1,683,928
Equipment rental	-	-
TOTAL OPERATING REVENUES	124,061	1,683,928
OPERATING EXPENSES		
Administrative	102,946	62,189
Operations	438,902	107,330
Well field	-	-
Treatment plant	-	1,023,956
Maintenance	43,783	94,979
Maintenance on hydrants	-	-
Depreciation	159,610	56,143
TOTAL OPERATING EXPENSES	745,241	1,344,597
OPERATING INCOME (LOSS)	(621,180)	339,331
NONOPERATING REVENUES (EXPENSES)		
Interest revenue	8,205	34,080
Taxes	69,026	-
Intergovernmental		
Federal	278,097	-
State	292,638	323,104
Local	7,500	-
Gain on sale of assets	5,766	-
Other revenue	1,995	78,443
Interest expense	-	(669,804)
TOTAL NONOPERATING REVENUES (EXPENSES)	663,227	(234,177)
NET INCOME (LOSS) BEFORE TRANSFERS	42,047	105,154
TRANSFERS OUT	-	(32,413)
NET INCOME (LOSS)	42,047	72,741
Net assets, beginning of year	1,169,333	967,155
Net assets, end of year	$ 1,211,380	$ 1,039,896

See accompanying notes to financial statements.

	Activities		Governmental Activities
Water System	Nonmajor Business-type Fund (Theatre)	Total	Internal Service (Central Garage)
$ 1,490,729	$ 237,535	$ 3,536,253	$ 468,917
-	-	-0-	358,428
1,490,729	237,535	3,536,253	827,345
253,756	-	418,891	68,788
93,069	245,627	884,928	671,235
281,651	-	281,651	-
-	-	1,023,956	-
137,640	-	276,402	-
15,637	-	15,637	-
457,414	38,469	711,636	103,812
1,239,167	284,096	3,613,101	843,835
251,562	(46,561)	(76,848)	(16,490)
71,646	-	113,931	6,026
-	-	69,026	-
-	-	278,097	-
466,368	-	1,082,110	-
-	-	7,500	-
-	-	5,766	9,858
531,225	7,521	619,184	136,550
(576,437)	(440)	(1,246,681)	(6,845)
492,802	7,081	928,933	145,589
744,364	(39,480)	852,085	129,099
(32,413)	-	(64,826)	(27,863)
711,951	(39,480) -	787,259	101,236
4,692,969	385,249	7,214,706	592,095
$ 5,404,920	$ 345,769	$ 8,001,965	$ 693,331

City of Ionia

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS

June 30, 2006

	Business-type		
	Dial-A-Ride	Sewer System	Water System
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash receipts from customers	$ 130,635	$ 1,647,156	$ 1,759,070
Other operating cash receipts	-	682,764	950,547
Cash paid to suppliers	(299,460)	(1,161,103)	(611,815)
Cash paid for employee benefits	(80,140)	(4,215)	(4,666)
Cash paid to employees	(196,204)	(48,193)	(86,530)
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	(445,169)	1,116,409	2,006,606
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Other nonoperating revenues	1,995	78,443	531,225
Taxes	69,378	-	-
Intergovernmental sources	345,326	323,104	466,368
Transfers out	-	(32,413)	(32,413)
NET CASH PROVIDED BY NONCAPITAL FINANCING ACTIVITIES	416,699	369,134	965,180
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES			
Capital purchases	(190,013)	(1,557,855)	(1,812,305)
Interest expense	-	(669,804)	(576,437)
Bond and note proceeds	-	675,000	675,000
Proceeds from sale of equipment	5,766	-	-
Capital grants	190,013	-	-
Principal payments	-	(24,500)	(415,000)
NET CASH PROVIDED (USED) BY CAPITAL FINANCING ACTIVITIES	5,766	(1,577,159)	(2,128,742)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest revenue	8,205	34,080	71,646
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(14,499)	(57,536)	914,690
Cash and cash equivalents, beginning of year	198,539	(31,027)	814,039
Cash and cash equivalents, end of year	$ 184,040	$ (88,563)	$ 1,728,729

See accompanying notes to financial statements.

Activities		Governmental Activities
Nonmajor Business-type Fund (Theatre)	Total	Internal Service (Central Garage)
$ 237,535	$ 3,774,396	$ 826,926
-	1,633,311	-
(195,672)	(2,268,050)	(258,116)
(3,348)	(92,369)	(34,822)
(40,418)	(371,345)	(452,079)
(1,903)	2,675,943	81,909
7,521	619,184	136,550
-	69,378	-
-	1,134,798	-
-	(64,826)	(27,863)
7,521	1,758,534	108,687
-	(3,560,173)	(84,856)
(440)	(1,246,681)	(6,845)
-	1,350,000	75,348
-	5,766	9,858
-	190,013	-
-	(439,500)	(78,433)
(440)	(3,700,575)	(84,928)
-	113,931	6,026
5,178	847,833	111,694
150	981,701	136,475
$ 5,328	$ 1,829,534	$ 248,169

City of Ionia

STATEMENT OF CASH FLOWS - PROPRIETARY FUNDS - CONTINUED

Year Ended June 30, 2006

	Business-type		
	Dial-A-Ride	Sewer System	Water System
Reconciliation of operating income (loss) to net cash provided (used) by operating activities			
Operating income (loss)	$ (621,180)	$ 339,331	$ 251,562
Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities			
Depreciation	159,610	56,143	457,414
(Increase) decrease in receivables	6,233	76,588	267,667
Decrease in due from other funds	-	246	199,408
(Increase) in due from other governmental units	-	(113,360)	-
Decrease in prepaid expenses	590	-	-
(Increase) in inventory	-	-	(5,479)
Decrease in deposits with County	-	682,518	751,139
Increase (decrease) in accounts payable	5,234	(1,538)	(63,007)
Increase (decrease) in accrued interest payable	-	37,471	14,882
Increase in due to other funds	693	117,099	134,867
Increase (decrease) in accrued wages	3,849	(1,540)	(3,005)
Increase (decrease) in accrued liabilities	154	(118)	(230)
Increase in accrued vacation and sick pay	-	2,802	714
(Decrease) in due to other governmental units	-	(79,233)	-
(Decrease) in deferred revenue	(352)	-	-
Increase in customer deposits	-	-	674
NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES	$ (445,169)	$ 1,116,409	$ 2,006,606

See accompanying notes to financial statements.

Activities		Governmental Activities
Nonmajor Business-type Fund (Theatre)	Total	Internal Service (Central Garage)
$ (46,561)	$ (76,848)	$ (16,490)
38,469	711,636	103,812
-	350,488	(419)
-	199,654	-
-	(113,360)	-
-	590	-
-	(5,479)	-
-	1,433,657	-
6,146	(53,165)	(6,903)
-	52,353	(1,646)
-	252,659	-
40	(656)	857
3	(191)	2,698
-	3,516	-
-	(79,233)	-
-	(352)	-
-	674	-
$ (1,903)	$ 2,675,943	$ 81,909

City of Ionia

STATEMENT OF NET ASSETS - FIDUCIARY FUND

June 30, 2006

	Current Tax Collection Fund
ASSETS	
Cash	$ 6,822
LIABILITIES	
Undistributed taxes	$ 6,822

See accompanying notes to financial statements.

City of Ionia

COMBINING STATEMENT OF NET ASSETS - COMPONENT UNITS

June 30, 2006

	Downtown Development Authority	Local Development Finance Authority	Total Component Units
ASSETS			
Current assets			
Cash and cash equivalents	$ (339,394)	$ 2,330	$ (337,064)
Receivables	9,092	9,357	18,449
Total current assets	(330,302)	11,687	(318,615)
Noncurrent assets			
Capital assets not being depreciated	375,256	-	375,256
TOTAL ASSETS	44,954	11,687	56,641
LIABILITIES			
Current liabilities			
Accounts payable	3,288	-	3,288
Accrued interest payable	39,558	-	39,558
Current portion of long-term debt	715,000	-	715,000
Total current liabilities	757,846	-0-	757,846
Noncurrent liabilities			
Noncurrent portion of long-term debt	4,305,000	721,505	5,026,505
TOTAL LIABILITIES	5,062,846	721,505	5,784,351
NET ASSETS			
Invested in capital assets, net of related debt	(4,644,744)	-	(4,644,744)
Unrestricted	(373,148)	(709,818)	(1,082,966)
TOTAL NET ASSETS	$ (5,017,892)	$ (709,818)	$ (5,727,710)

See accompanying notes to financial statements.

City of Ionia

STATEMENT OF ACTIVITIES - COMPONENT UNITS

Year Ended June 30, 2006

	Downtown Development Authority	Local Development Finance Authority	Total Component Units
Program Expenses			
Community and economic development	$ 434,538	$ 38,136	$ 472,674
General Revenues			
Property taxes	1,348,039	14,191	1,362,230
Interest	5,220	604	5,824
TOTAL GENERAL REVENUES	1,353,259	14,795	1,368,054
CHANGE IN NET ASSETS	918,721	(23,341)	895,380
Net assets, beginning of the year	(5,936,613)	(686,477)	(6,623,090)
Net assets, end of the year	$ (5,017,892)	$ (709,818)	$ (5,727,710)

See accompanying notes to financial statements.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Ionia is located in Ionia County, Michigan and has a population of approximately 10,000. The City of Ionia operates with a City Manager/Council form of government and provides services to its residents in many areas including general government, law enforcement, highways and streets, human services, and utilities services.

The City has eight (8) City Council members who are elected at large for overlapping four (4) year terms, and a Mayor and City Clerk who are elected at large for four (4) year terms. The Council appoints the City Manager, Treasurer, and Assessor.

The financial statements of the City have been prepared in accordance with accounting principles generally accepted in the United States of America (GAAP) as applied to city governments. The Governmental Accounting Standards Board is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The City's more significant accounting policies are described below.

1. Reporting Entity

As required by accounting principles generally accepted in the United States of America; GASB Statement 14, *The Financial Reporting Entity* (as amended by GASB Statement No. 39); and *Statement on Michigan Governmental Accounting and Auditing No. 5*, these financial statements present the financial activities of the City of Ionia (primary government) and the Downtown Development Authority and Local Development Finance Authority (component units).

The component unit columns in the basic financial statements include the financial data of the City's component units (Downtown Development Authority and Local Development Finance Authority). They are reported in a separate column to emphasize that they are legally separate from the City.

The governing bodies of the Downtown Development Authority and Local Development Finance Authority are appointed by the City Council, their budgets are subject to the approval of the City Council, the City temporarily relinquishes part of its tax base to the Authorities (tax increment revenues), and the City has pledged its full faith and credit towards payment of the Component Units' debt.

The financial statements of the Ionia Building Authority have been blended with the City's Debt Service and Capital Projects Funds.

Based upon the application of these criteria, the basic financial statements of the City of Ionia contain all the funds controlled by the City Council other than the Ionia Housing Commission fund.

The Ionia Housing Commission is a component unit that was established by City Council to provide low rent housing. The financial activity has not been included as part of the City's financial statements in accordance with the provisions of Michigan Committee on Governmental Accounting and Auditing Statement No. 5.

The most recent audited financial statements for the Ionia Housing Commission are for the year ended September 30, 2005. Total assets, liabilities, and equity as of September 30, 2005, were $4,427,816, $82,023, and $4,345,793, respectively. Total revenues, expenses, and net decrease in equity were $653,762, $680,337, and $26,575, respectively.

2. Joint Venture

The City participates in the following activity, which is considered to be a joint venture in relation to the City, due to the formation of an organization by contractual agreement between two (2) or more participants that maintain joint control, financial interest, and financial responsibility.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Joint Venture - continued

Ionia Area Sewage Disposal System - The City of Ionia, along with the Townships of Easton, Ionia, Berlin, and Orange have entered into an agreement with the County of Ionia, which created the Ionia Area Sewage Disposal System (SDS). The purpose of the SDS is to construct, improve, enlarge, extend, operate, and maintain all sanitary sewers, storm sewers, combined sanitary and storm sewers, plants, and works used in connection with the collection, treatment, or disposal of sewage for the benefit of the constituent municipalities.

The City of Ionia operates, administers, and maintains the SDS on behalf of the County and Townships. The annual budget of the SDS is prepared by the City and adopted by City Council. The proposed budget and allocation of costs are submitted to the County and Townships at least sixty (60) days prior to the beginning of each fiscal year. The Townships have thirty (30) days to advise the City of any objections to the proposed budget and allocations. Objections that cannot be resolved are brought before a review board consisting of one (1) appointed member from each constituent municipality and the County Board of Public Works. All actions of the review board are made by a majority vote.

The allocation of costs of the SDS to the constituent municipalities is based on usage of the system as measured by billable flow. During 1996, the City began to directly bill Ionia Township SDS customers. As a result, the City's allocation of costs includes the portion of costs that had been charged to Ionia Township in the past. On December 1, 2001, the City began to directly bill Easton Township SDS customers for operating costs and fixed asset reserves. As a result, the City's allocation of costs includes a portion of costs that would have been charged to Easton Township in the past. The Township continues to make contributions to SDS to fund their portion of the debt service requirements. For the year ended June 30, 2006, the City contributed $1,023,955 to cover the City's and Townships' share of operational costs and $490,412 to cover the City's and Townships' share of principal and interest portions of long-term debt issued by the County for the benefit of the SDS.

Funding of operating costs and the capital asset reserve as based on annual participant usage is currently as follows:

City of Ionia	91.67%
Ionia Township	4.88%
Berlin Township	3.45%

Funding of debt service as based on annual participant usage is currently as follows:

City of Ionia	88.66%
Ionia Township	4.49%
Berlin Township	3.46%
Easton Township	3.39%

The City has not recorded an asset in the Enterprise Fund Type related to SDS due to not having documented an "equity interest" in SDS for accounting purposes. To document an "equity interest", the City would need to document an explicit, measurable right to the net resources of SDS.

The financial activities of the SDS are accounted for and reported separately from the participating units. Separate audited financial statements for the year ended June 30, 2006 are available at the City's administrative offices. The following financial information is a summary of the activity for the year ended June 30, 2006:

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

2. Joint Venture - continued

Total assets	$12,129,177
Total liabilities	4,006,653
Total net assets	8,122,524
Total operating revenue	1,088,560
Total nonoperating revenues	575,651
Total operating expenses	1,353,195
Total nonoperating expenses	176,755
Change in net assets	134,261

3. Basis of Presentation

GOVERNMENT-WIDE FINANCIAL STATEMENTS

The statement of net assets and the statement of activities (the government-wide statements) present information for the primary government and its component units as a whole. All non-fiduciary activities of the primary government are included (i.e., fiduciary fund activities are not included in the government-wide statements). For the most part, interfund activity has been eliminated in the preparation of these statements. Governmental activities, which normally are supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The statement of activities presents the direct functional expenses of the primary government and its component units and the program revenues that support them. Direct expenses are specifically associated with a service, program, or department and are therefore clearly identifiable to a particular function. Program revenues are associated with specific functions and include charges to recipients of goods or services and grants and contributions that are restricted to meeting the operational or capital requirements of that function. Revenues that are not required to be presented as program revenues are general revenues. This includes all taxes, interest, and unrestricted State revenue sharing payments and other general revenues and shows how governmental functions are either self-financing or supported by general revenues.

FUND FINANCIAL STATEMENTS

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

The major funds of the City are:

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

b. The Grant Projects Fund is used to account for grant funded capital projects.

c. The Sewer System Fund is used to account for the operations required to provide sewer services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

d. The Water System Fund is used to account for the operations required to provide water services to the general public, the costs (expenses, including depreciation) are financed or recovered primarily through user charges.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

3. Basis of Presentation - continued

FUND FINANCIAL STATEMENTS - CONTINUED

e. The Dial-A-Ride Fund is used to account for the operations to provide public transportation services to residents of the City of Ionia and the greater Ionia area.

4. Measurement Focus

The government-wide and proprietary fund financial statements are presented using the economic resources measurement focus, similar to that used by business enterprises or not-for-profit organizations. Because another measurement focus is used in the governmental fund financial statements, reconciliations to the government-wide statements are provided that explain the differences in detail.

All governmental funds are presented using the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in net current assets.

There is no measurement focus for agency funds since assets equal liabilities.

5. Basis of Accounting

Basis of accounting refers to when revenues and expenditures are recognized in the accounts and reported in the financial statements. Basis of accounting relates to the timing of the measurement made, regardless of the measurement focus applied.

All governmental funds are accounted for using the modified accrual basis of accounting. Under this method, revenues are recognized when they become susceptible to accrual (when they become both "measurable" and "available to finance expenditures of the current period"). The length of time used for "available" for purposes of revenue recognition in the governmental fund financial statements is 60 days. Revenues that are considered measurable but not available are recorded as a receivable and deferred revenue. Significant revenues susceptible to accrual are special assessments and certain intergovernmental revenues. Expenditures are generally recognized under the modified accrual basis of accounting when the related fund liability is incurred, except for interest on long-term debt which is recorded when due.

All proprietary and similar trust funds are accounted for using the accrual basis of accounting. Their revenues are recognized when they are earned, and their expenses are recognized when they are incurred.

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

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the Enterprise Funds are charges to customers for sales and services. Operating expenses for enterprise funds include the costs of sales and services, administrative expenses, and other costs of running the activity. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses. If/when both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

6. Budgets and Budgetary Accounting

The General and Special Revenue Funds' budgets shown as required and other supplementary information were prepared on the same modified accrual basis used to reflect actual results. The City employs the following procedures in establishing the budgetary data reflected in the financial statements.

a. The City Department heads present proposed departmental operating expenditure budgets to the City Manager for the fiscal year commencing the following July 1.

b. The City Manager submits to City Council the proposed operating budgets for the fiscal year commencing the following July 1. The operating budgets include proposed expenditures and resources to finance them.

c. A Public Hearing is conducted to obtain taxpayers' comments.

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

e. The budget is legally adopted at the total expenditure level for all funds; however, they are maintained at the account level for control purposes. The City Manager is authorized to transfer budgeted amounts between departments within any fund. Any revisions that alter the total expenditures of any fund must be approved by the City Council.

f. Appropriations unused at June 30 are not carried forward to the following fiscal year.

g. Budgeted amounts are reported as originally adopted or amended by the City Council during the year. Individual amendments were appropriately approved by the City Council as required.

7. Cash, Cash Equivalents, and Investments

The City pools cash resources of various funds in order to facilitate the management of cash. Cash applicable to a particular fund is readily identifiable. The balances in the pooled cash accounts are available to meet current operating requirements. Cash in excess of current requirements is invested in various interest bearing securities and pooled investment accounts. Cash equivalents consist of temporary investments in mutual funds and certificates of deposit with original maturities of 90 days or less.

Investments include certificates of deposit with original maturities of greater than 90 days from the date of purchase. All certificates of deposit are stated at cost, which approximates market value.

8. Property Tax

The City of Ionia bills and collects its own property taxes and also taxes for other governmental units. The City's property tax revenue recognition policy and related tax calendar disclosures are highlighted in the following paragraph:

Property taxes are levied by the City of Ionia on July 1 and December 1 and are payable without penalty through July 31 and February 14, respectively. The July 1 levy is composed of the City's millage, 2/3 of the County's millage, special assessments, and school taxes. The December 1 levy is composed of 1/3 of the County's millage and school taxes. All real property taxes not paid to the City by March 1 are turned over to the Ionia County Treasurer for collection. The Ionia County Treasurer purchases the receivables of all taxing districts on any delinquent real property taxes. Delinquent personal property taxes receivable are retained by the City for subsequent collection. Collections and remittances of all taxes are accounted for in the Tax Account Agency Fund. City property tax revenues are recognized as revenues in the fiscal year levied.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

8. Property Tax - continued

The City is permitted by ordinance to levy taxes up to 15 mills ($15 per $1,000 of taxable valuation) for general governmental services other than the payment of Debt Service Fund expenditures. For the year ended June 30, 2006, the City levied 3.00 mills per $1,000 of taxable valuation for general governmental services. In addition, the City levied 1.75 mills for environmental clean-up debt service, 2.00 mills for Public Safety, and .7492 mills for Dial-A-Ride services.

9. Income Tax Revenues

In accordance with GASB Statement No. 22, *Accounting for Taxpayer - Assessed Tax Revenues in Governmental Funds*, the City has recognized taxpayer-assessed taxes, net of estimated refunds, as revenue in the accounting period in which they become susceptible to accrual (i.e., measurable and available to finance expenditures of the fiscal period). The City has calculated this amount based on the income tax collections and refunds made within 60 days after year-end that relate to the prior years.

In 1994, the residents of the City voted for an income tax in an effort to reduce the millage levied for property taxes. As a result, the millage levied for governmental services was reduced significantly down to 3.0000 mills.

10. Inventories

The cost of inventory items in governmental funds is recorded as an expenditure at the time of purchase. Inventories in the Enterprise Funds consist of operating materials and supplies, which are stated at cost on a first-in/first-out basis.

11. Accrued Vacation and Sick Leave

City employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee with more than one (1) year of service is paid for accumulated vacation days, with certain groups of employees only being able to accumulate up to the equivalent of twenty-one (21) days of vacation. Upon termination employees with more than six (6) months of service are paid for one-half of accumulated sick leave, not to exceed 480 hours.

The cost of the accumulated vacation, including related payroll taxes, is recorded entirely in the government-wide financial statements.

12. Interfund Transactions

During the course of normal operations, the City has numerous transactions between funds, including expenditures and transfers of resources to provide services, construct assets, and service debt. The accompanying financial statements generally reflect such transactions as transfers.

The Internal Service Fund (Central Garage) records charges for services provided to various City departments and funds as operating revenue. All City funds record these payments as operating expenditures/expenses.

NOTE A: DESCRIPTION OF CITY AND SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - CONTINUED

13. Capital Assets

PRIMARY GOVERNMENT AND COMPONENT UNITS

Capital assets include land and improvements, buildings, furniture and equipment, vehicles, and infrastructure and are recorded (net of accumulated depreciation, if applicable) in the government-wide financial statements under the governmental activities, business-type activities, and component unit columns. Capital assets are those with an initial individual cost of $5,000 or more and an estimated useful life of more than one year. Capital assets are not recorded in the governmental funds. Instead, capital acquisition and construction are reflected as expenditures in governmental funds, and the related assets are reported in the government-wide financial statements. All purchased capital assets are valued at cost where historical records are available and at an estimated historical cost where no historical records exist. Donated capital assets are valued at their estimated fair market value on the date received.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Depreciation is computed using the straight-line method over the following useful lives:

Structures and improvements	20 - 75 years
Machinery, furniture, and equipment	5 - 50 years
Vehicles	5 years
Infrastructure	20 - 30 years

14. Long-Term Obligations

Long-term debt and other long-term obligations are recognized as a liability in the government-wide financial statements and proprietary fund types when incurred. The portion of those liabilities expected to be paid within the next year is a current liability with the remaining amounts shown as long-term.

Long-term debt is recognized as a liability of a governmental fund when due or when resources have been accumulated in a Debt Service Fund for payment early in the following year. For other long-term obligations, only that portion expected to be financed from expendable available financial resources is reported as a fund liability of a governmental fund.

15. Comparative Data

Comparative data has not been presented in the accompanying financial statements since their inclusion would make the statements unduly complex and difficult to read.

16. Federal Programs

Federal programs are accounted for in the General, Capital Projects, and Enterprise Funds. The City was required to have a Single Audit under OMB Circular A-133 because expenditures of Federal award programs administered by the City exceeded the necessary threshold. The single audit reports are issued under separate cover.

NOTE B: POOLING OF CASH AND CASH EQUIVALENTS

The City's governmental funds balance sheet and statement of net assets reflect cash and cash equivalents with a negative balance. These amounts do not represent actual bank overdrafts; rather, they merely reflect that specific funds have disbursed amounts from the City's common checking account in excess of the amount recorded as an asset. In total, the bank account has a positive balance.

NOTE B: POOLING OF CASH AND CASH EQUIVALENTS - CONTINUED

Cash disbursed in excess of amounts recorded as assets as of June 30, 2006, are as follows:

Fund	Negative Pooled Cash	Nonpooled Cash and Cash Equivalents	Financial Statements
PRIMARY GOVERNMENT			
General Fund	$(1,223,191)	$ 977,494	$ 245,697
Special Revenue Funds			
Major Streets	(58,932)	-	(58,932)
Local Streets	(21,779)	-	(21,779)
Debt Service Fund			
Skyview/Gregmark	(1,283)	1,348	65
Capital Projects Funds			
Building Authority	(3,042)	59,696	56,654
Enterprise Funds			
Sewer System	(88,563)	-	(88,563)
Theatre	(1,622)	6,950	5,328
COMPONENT UNIT			
Downtown Development Authority	(339,394)	-	(339,394)

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS

The City deposits consist of a common checking account and various savings accounts, checking accounts, pooled investment accounts, and certificates of deposit maintained by individual funds and are reported as cash and cash equivalents and investments on the basic financial statements.

In accordance with Michigan Compiled Laws, the City is authorized to invest in the following investment vehicles:

a. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.

b. Certificates of deposit, savings accounts, deposit accounts, or depository receipts of a State or nationally chartered bank or a State or Federally chartered savings and loan association, savings bank, or credit union whose deposits are insured by an agency of the United States government and which maintains a principal office or branch office located in this State under the laws of the State of the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible be a depository of surplus funds belong to the State under Section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

c. Commercial paper rated at the time of purchase within the three (3) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.

d. The United States government or federal agency obligations repurchase agreements.

e. Bankers' acceptances of United States banks.

f. Mutual funds composed of investment vehicles, which are legal for direct investment by local units of government in Michigan.

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Federal Deposit Insurance Corporation (FDIC), Federal Savings and Loan Insurance Corporation (FSLIC), and the National Credit Union Administration (NCUA) regulations provide that deposits of governmental units are to be separately insured for the amount of $100,000 for deposits in an insured bank for savings deposits and $100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of $100,000. Michigan Compiled Laws allow collateralization of government deposits, if the assets for pledging are acceptable to the State Treasurer under Section 3 of 1855 PA 105, MCL 21.143, to secure deposits of State surplus funds, securities issued by the Federal Loan Mortgage Corporation, Federal National Mortgage Association, or Government National Mortgage Association.

Deposits

As of June 30, 2006, the carrying amounts and bank balance for each type of account as reported in the cash, cash equivalents, and investments caption in the basic financial statements are as follows:

Account Type	Carrying Amount	Bank Balance
Checking	$ 232,103	$ 735,712
Savings and money markets	588,373	588,373
Certificates of deposit	419,103	419,103
	$ 1,239,579	$ 1,743,188

The cash and cash equivalents reported in the basic financial statements include $1,000 in imprest cash.

Deposits of the City are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the City. As of June 30, 2006, the City accounts were insured by the FDIC and NCUA for $393,605 and the amount of $1,349,583 was uninsured and uncollateralized.

Investments

As of June 30, 2006, the City had the following investments:

INVESTMENT TYPE	Carrying Amount	Market Value	Weighted Average Maturity
PRIMARY GOVERNMENT			
Federal Home Loan Mortgage Corporation	$ 716,816	$ 716,816	25 months
Uncategorized pooled investment	250,367	250,367	< 12 months average
	$ 967,183	$ 967,183	

Credit risk

State law limits investments in certain types of investments to a prime or better rating issued by nationally recognized statistical rating organizations (NRSRO's). As of June 30, 2006, the City's investments were rated AAA by Standard and Poor's.

Interest rate risk

The City will minimize interest rate risk, which is the risk that the market value of securities in the portfolio will fall due to changes in market interest rates, by:

NOTE C: CASH, CASH EQUIVALENTS, AND INVESTMENTS - CONTINUED

Interest rate risk - continued

Structuring the investment portfolio so that securities mature to meet cash requirements for ongoing operations, thereby avoiding the need to sell securities on the open market prior to maturity, and investing operating funds primarily in shorter-term securities, money market mutual funds, or similar investment pools and limiting the average maturity of the portfolio.

Concentration of credit risk

The City will minimize credit risk, which is the risk of loss due to the failure of the security issuer or backer, by:

Limiting investments to the types of securities listed in the "Authorized Investments" section; pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisers with which the City will do business in accordance with the "Authorized Institutions" section; and diversifying the investment portfolio so that the impact of potential losses from any one type of security or from any one individual issuer will be minimized.

The cash, cash equivalents, and investments referred to above have been reported in either the cash and cash equivalents or investments captions on the basic financial statements, based on criteria disclosed in Note A. The following summarizes the categorization of these amounts as of June 30, 2006.

	Primary Government	Component Units	Fiduciary Fund	Reporting Entity
Cash and cash equivalents	$ 1,563,761	$(337,064)	$ 6,822	$ 1,233,519
Cash and cash equivalents - restricted	959,243	-	-	959,243
Investment - restricted	15,000	-	-	15,000
	$ 2,538,004	$(337,064)	$ 6,822	$ 2,207,762

The amounts identified above include Enterprise Fund restricted cash and investments of $959,243 and $15,000, respectively, as of June 30, 2006, to be used to fund Water System and Sewer System improvements and bond and interest redemption.

NOTE D: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details primary government interfund receivables and payables at June 30, 2006:

Due to General Fund from:	
Dial-A-Ride	$ 693
Nonmajor governmental funds	5,274
	5,967
Due to Grant Projects Fund from:	
Sewer System Fund	117,099
Water System Fund	134,867
	251,966
	$ 257,933

Amounts appearing as interfund payables and receivables arise from two types of transactions. One type of transaction is where a fund will pay for a good or service that at least a portion of the benefit belongs to another fund. The second type of transaction is where one fund provides a good or service to another fund. Balances at the end of the year are for transfers that have not cleared as of the balance sheet date.

NOTE E: INTERFUND TRANSFERS

Permanent reallocation of resources between funds of the reporting entity is classified as interfund transfers. For the purpose of the statement of activities, all interfund transfers between individual governmental funds, business-type funds and component units have been eliminated.

Transfers to General Fund from:	
Nonmajor governmental funds	$ 17,301
Transfers to nonmajor governmental funds from:	
General Fund	604,188
Sewer System Fund	32,413
Water System Fund	32,413
Nonmajor governmental funds	61,234
Internal Service Fund	27,863
	758,111
	$ 775,412

The Enterprise Funds' have recorded transfers to the Grants Project Fund of $3,182,519 for purposes of funding capital projects as construction in progress or capital assets.

NOTE F: CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2006 was as follows:

Primary Government

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Governmental activities				
Capital assets not being depreciated				
Land	$ 238,370	$ -	$ -	$ 238,370
Capital assets being depreciated				
Land improvements	2,073,099	-	-	2,073,099
Buildings	1,187,478	-	-	1,187,478
Vehicles	3,375,734	82,693	(56,236)	3,402,191
Furniture and equipment	2,327,970	83,517	-	2,411,487
Infrastructure	11,727,187	-	-	11,727,187
Subtotal	20,691,468	166,210	(56,236)	20,801,442
Accumulated depreciation				
Land improvements	(774,264)	(106,402)	-	(880,666)
Buildings	(297,496)	(44,732)	-	(342,228)
Vehicles	(2,207,551)	(214,867)	56,236	(2,366,182)
Furniture and equipment	(779,579)	(116,760)	-	(896,339)
Infrastructure	(3,224,641)	(563,970)	-	(3,788,611)
Subtotal	(7,283,531)	(1,046,731)	56,236	(8,274,026)
Net capital assets being depreciated	13,407,937	(880,521)	-0-	12,527,416
Total net capital assets	$ 13,646,307	$(880,521)	$ -0-	$ 12,765,786

NOTE F: CAPITAL ASSETS - CONTINUED

Depreciation expense was charged to the following governmental activities:

General government	$ 128,993
Public safety	218,200
Public works	577,810
Recreation and cultural	121,728
Total Depreciation Expense	$ 1,046,731

	Balance July 1, 2005	Additions/ Reclassifications	Deletions/ Reclassifications	Balance June 30, 2006
Business-type activities				
Capital assets not being depreciated				
Construction in progress	$ 1,656,018	$ 3,182,518	$(1,365,958)	$ 3,472,578
Land	1,219,180	-	-	1,219,180
Subtotal	2,875,198	3,182,518	(1,365,958)	4,691,758
Capital assets being depreciated				
Land improvements	8,565	-	-	8,565
Structures and improvements	16,943,851	1,453,392	-	18,397,243
Machinery, furniture, and equipment	5,592,524	145,612	-	5,738,136
Vehicles	769,146	144,609	(32,701)	881,054
Subtotal	23,314,086	1,743,613	(32,701)	25,024,998
Less accumulated depreciation				
Land improvements	(6,952)	(190)	-	(7,142)
Structures and improvements	(3,376,851)	(425,737)	-	(3,802,588)
Machinery, furniture, and equipment	(3,441,542)	(186,378)	-	(3,627,920)
Vehicles	(618,008)	(99,331)	32,701	(684,638)
Subtotal	(7,443,353)	(711,636)	32,701	(8,122,288)
Net capital assets being depreciated	15,870,733	1,031,977	-0-	16,902,710
Total net capital assets	$ 18,745,931	$ 4,214,495	$(1,365,958)	$ 21,594,468
Component Units				
Capital Assets Not Being Depreciated				
Land	$ 375,256	$ -0-	$ -0-	$ 375,256

NOTE G: LONG-TERM DEBT

The following is a summary of changes in long-term debt (including current portion) of the City for the year ended June 30, 2006.

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
PRIMARY GOVERNMENT					
Environmental Bonds	$ 690,000	$ -	$ 35,000	$ 655,000	$ 40,000
Building Authority Bonds - 1992	160,000	-	50,000	110,000	55,000
Building Authority Bonds - 2001	900,000	-	25,000	875,000	25,000
General Obligation Tax Bonds - 2002	170,000	-	55,000	115,000	55,000
Transportation Bonds	700,000	-	50,000	650,000	50,000
Special Assessment Bonds	600,000	-	100,000	500,000	100,000
Streetlight project loan	59,962	-	29,705	30,257	30,257
Equipment Notes	728,106	-	108,569	619,537	111,616
Accumulated vacation and sick	436,501	7,342	-	443,843	110,961
	4,444,569	7,342	453,274	3,998,637	577,834
Water System Fund					
1999 Water Supply Revenue Refunding Bonds	6,650,000	-	350,000	6,300,000	400,000
2001 Water and Sewer Improvement Bonds	2,210,000	-	65,000	2,145,000	65,000
2004 Water and Sewer Improvement Bonds	2,100,000	-	-	2,100,000	-
2005 Water and Sewer Improvement Bonds	1,665,000	-	-	1,665,000	-
2006 Water and Sewer Improvement Bonds	-	675,000	-	675,000	-
Accumulated vacation and sick	16,483	714	-	17,197	4,299
Sewer System Fund					
2001 Water and Sewer Improvement Bonds	833,000	-	24,500	808,500	24,500
2004 Water and Sewer Improvement Bond	1,260,000	-	-	1,260,000	-
2005 Water and Sewer Improvement Bonds	1,665,000	-	-	1,665,000	-
2006 Water and Sewer Improvement Bonds	-	675,000	-	675,000	-
Accumulated vacation and sick	13,963	2,802	-	16,765	4,191
	16,413,446	1,353,516	439,500	17,327,462	497,990
Internal Service Fund					
Central Garage					
1999 Sewer basin truck loan	41,636	-	27,289	14,347	14,347
2003 Dump truck loan	14,425	-	14,425	-0-	-
2003 Street sweeper loan	84,238	-	19,721	64,517	20,644
2004 Dump truck loan	53,067	-	16,998	36,069	18,212
2006 Equipment note	-	75,348	-	75,348	24,137
Accumulated vacation and sick	10,319	2,632	-	12,951	3,238
	203,685	77,980	78,433	203,232	80,578
TOTAL PRIMARY GOVERNMENT	21,061,700	1,438,838	971,207	21,529,331	1,156,402

NOTE G: LONG-TERM DEBT - CONTINUED

	Balance July 1, 2005	Additions	Reductions	Balance June 30, 2006	Amounts Due Within One Year
COMPONENT UNITS					
Downtown Development Authority					
1997 General Obligation Refunding Bonds	$ 2,205,000	$ -	$ 415,000	$ 1,790,000	$ 410,000
1998 General Obligation Refunding Bonds	3,525,000	-	295,000	3,230,000	305,000
	5,730,000	-0-	710,000	5,020,000	715,000
Local Development Finance Authority					
SDS loan payable	697,769	35,236	11,500	721,505	-
TOTAL COMPONENT UNITS	6,427,769	35,236	721,500	5,741,505	715,000
TOTAL REPORTING ENTITY	$27,489,469	$ 1,474,074	$ 1,692,707	$27,270,836	$ 1,871,402

Significant details regarding outstanding long-term debt (including current portion) are presented below:

PRIMARY GOVERNMENT

General Obligation Bonds

$975,000 1990 Unlimited Tax General Obligation Environmental Bonds dated December 1, 1990, due in annual installments ranging from $40,000 to $85,000 through April 1, 2017, with interest at 6.75 percent, payable semi-annually.	$ 655,000
$600,000 1992 Limited Tax Obligation Building Authority Bonds dated August 1, 1992, due in annual installments of $55,000 through October 1, 2007, with interest at 6.25 percent, payable semi-annually.	110,000
$950,000 2001 Limited Tax Obligation Building Authority Bonds dated June 1, 2001, due in annual installments ranging from $25,000 to $100,000 through August 1, 2020, with interest ranging from 5.00 to 8.00 percent, payable semi-annually.	875,000
$900,000 2001 Limited Tax Obligation Transportation Bonds dated May 1, 2001, due in annual installments ranging from $50,000 to $75,000 through August 1, 2015, with interest ranging from 3.90 to 5.00 percent, payable semi-annually.	650,000
$265,000 2002 Limited Tax General Obligation Bonds dated June 25, 2002, due in annual installments ranging from $55,000 to $60,000 through September 1, 2007, with interest ranging from 3.30 to 3.60 percent, payable semi-annually.	115,000
$4,200,000 2004 Water and Sewer Improvement Bonds dated April 1, 2004, due in annual installments ranging from $60,000 to $240,000 through August 1, 2029, with interest ranging from 3.00 to 4.60 percent, payable semi-annually. Ionia Area Sewer Disposal System is responsible for 20 percent of the outstanding debt; the remaining portion is recorded in the Water and Sewer Funds as $2,100,000 and $1,260,000, respectively.	3,360,000

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

General Obligation Bonds - continued

$3,700,000 2005 Water and Sewer Improvement Bonds dated May 1, 2005, due in annual installments ranging from $22,500 to $247,500 through August 1, 2029, with interest ranging from 3.50 to 4.50 percent, payable semi-annually. Ionia Area Sewer Disposal System is responsible for 10 percent of the outstanding debt; the remaining portion is recorded in the Water and Sewer Funds as $1,665,000 and $1,665,000, respectively.	$ 3,330,000
$1,500,000 2006 Water and Sewer Improvement Bonds dated May 1, 2006, due in annual installments ranging from $22,500 to $90,000 through August 1, 2029, with interest ranging from 4.60 to 6.00 percent, payable semi-annually. Ionia Area Sewer Disposal System is responsible for 10 percent of the outstanding debt; the remaining portion is recorded in the Water and Sewer Funds as $675,000 and $675,000, respectively.	1,350,000
	$10,445,000

Special Assessment Limited Tax Bonds Payable

$1,310,000 1995 Public Improvement Special Assessment Bonds dated October 1, 1995, due in annual installments of $100,000 through October 1, 2010, with interest ranging from 5.20 to 5.75 percent, payable semi-annually.	$ 500,000

Water and Sewer Supply System Revenue Bonds

$8,400,000 1999 Water Supply Water System Refunding Bonds dated August 19, 1999, due in annual installments ranging from $400,000 to $650,000 through July 1, 2018, with interest ranging from 4.50 to 5.90 percent, payable semi-annually.	$ 6,300,000
$3,600,000 2001 Water and Sewer Improvement Bonds dated August 1, 2001, due in annual installments ranging from $89,500 to $268,500 through August 1, 2020, with interest ranging from 4.00 to 5.00 percent, payable semi-annually. Ionia Area Sewer Disposal System is responsible for 10.5 percent of the outstanding debt; the remaining portion is recorded in the Water and Sewer Funds at $2,145,000 and $808,500, respectively.	2,953,500
	$ 9,253,500

Municipal Purchase Contracts

The following loans are considered municipal purchase contracts, under Act No. 99 PA of 1933, as amended, and are not subject to State of Michigan, Department of Treasury approval:

$250,000 Streetlight Project Loan dated January 17, 1997, due in semi-annual installments ranging from $14,825 to $15,432 through January 15, 2007, with interest at 5.14 percent, payable semi-annually.	$ 30,257
$170,000 Sewer Basin Truck Loan dated September 2, 1999, due in a final installment of $14,347 on July 30, 2006, with interest at 5.05 percent.	14,347

NOTE G: LONG-TERM DEBT - CONTINUED

PRIMARY GOVERNMENT - CONTINUED

Municipal Purchase Contracts - continued

$143,100 Department of Public Works Street Sweeper Loan dated September 4, 2002, due in annual installments ranging from $20,644 to $22,263 through December 1, 2008, with interest at 4.68 percent.	$ 64,517
$842,136 Equipment note for a purchase of a tanker truck and to pay off three (3) existing higher debt issues, the note dated August 25, 2003, due in annual installments ranging from $79,794 to $338,705 through October 15, 2009, with interest at 3.90 percent.	587,715
$87,987 Department of Public Works Dump Truck Loan dated August 5, 2003, due in annual installments ranging from $17,857 to $18,212 through September 30, 2007, with interest at 3.97 percent.	36,069
$63,645 Equipment note for the purchase of three (3) police cars, the note dated February 4, 2005, due in a final installment of $31,822 on September 1, 2006, with interest at 3.45 percent.	31,822
$75,348 2006 Promissory Note for the purchase of four (4) pick up trucks by the Department of Public Works dated November 17, 2005, due in annual installments ranging from $24,137 to $26,077 through November 17, 2008, with interest at 4.13 percent.	75,348
	$ 840,075

COMPONENT UNITS

General Obligation Bonds

$4,005,000 1997 Limited Tax General Obligation Downtown Development Authority Refunding Bonds dated May 15, 1997, due in annual installments ranging from $410,000 to $460,000 through May 1, 2010, with interest ranging from 5.60 to 5.90 percent, payable semi-annually.	$ 1,790,000
$3,835,000 1998 Limited Tax General Obligation Downtown Development Authority Refunding Bonds dated November 24, 1998, due in annual installments ranging from $305,000 to $425,000 through November 1, 2014, with interest ranging from 3.90 to 4.35 percent payable semi-annually.	3,230,000
	$ 5,020,000

The Ionia Area Sewage Disposal System, a joint venture of which the City has an approximate equity interest of 87%, made the following loan to the Local Development Financing Authority Fund. The loan is accounted for essentially as an interfund loan within the City financial statements due to the substantial equity interest in the Sewage Disposal System. Therefore, the loan is not subject to State of Michigan, Department of Treasury approval.

$520,000 Ionia Area Sewage Disposal System (SDS) loan due in annual principal and interest installments based on sales of Industrial Park land. The outstanding balance includes accrued interest along with the principal amounts.	$ 721,505

NOTE G: LONG-TERM DEBT - CONTINUED

Accumulated Vacation and Sick

Individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave, and also receive an annual longevity payment. The dollar amounts of these vested rights have been recorded in the government-wide financial statements. They amount to approximately $490,756 at June 30, 2006. Of this amount, $33,962 and $12,951 are recorded as liabilities within the Enterprise and Internal Service fund types, respectively, in accordance with criteria disclosed in Note A.

Annual Requirements for Bonded Debt and Installment Loans

The annual requirement to pay the debt principal and interest outstanding for the following bonds and loans are as follows:

Primary Government

Year Ending June 30,	General Obligation and Special Assessment Bonds		Revenue Bonds		Installment Loans	
	Principal	Interest	Principal	Interest	Principal	Interest
2007	$ 325,000	$ 480,353	$ 89,500	$ 67,511	$ 219,213	$ 34,239
2008	435,000	477,582	534,250	366,682	148,102	25,247
2009	372,000	457,377	534,250	343,998	134,595	19,649
2010	400,000	437,685	584,250	321,313	338,165	13,653
2011	453,000	416,647	629,000	296,128	-	-
2012-2016	2,130,000	1,794,262	3,704,250	1,058,840	-	-
2017-2021	2,180,000	1,276,315	3,178,000	266,202	-	-
2022-2026	2,385,000	789,228	-	-	-	-
2027-2030	2,265,000	207,756	-	-	-	-
	$ 10,945,000	$ 6,337,202	$ 9,253,500	$ 2,720,674	$ 840,075	$ 92,788

Component Unit

Year Ending June 30,	General Obligation Bonds	
	Principal	Interest
2007	$ 715,000	$ 231,399
2008	775,000	196,193
2009	785,000	157,092
2010	800,000	116,860
2011	355,000	75,384
2012-2015	1,590,000	140,877
	$ 5,020,000	$ 917,805

Because the SDS loan to the Local Development Finance Authority is due in installments based on sales of Industrial Park land, it was not possible to project a payment schedule for this loan. As a result, it is not included in the schedule above. The City believes that the SDS loan is eligible for repayment with tax increment financing revenues.

NOTE G: LONG-TERM DEBT - CONTINUED

Advance Refunding - Prior

On May 15, 1997, the City defeased the portion of the 1990 G.O. Downtown Development Authority Bonds which were due and payable May 1, 2001 through May 1, 2010 and a portion of the 1991 G.O. Downtown Development Authority Bonds, which are due and payable May 1, 2001, through May 1, 2010. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government Securities sufficient to meet the applicable principal and interest obligations. The City issued General Obligation 1998 Downtown Development Authority Refunding Bonds in the amount of $4,005,000 to provide resources to fund the escrow amounts and pay the costs of issuance of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2006, bonds due and payable May 1, 2007 through May 1, 2010 for the 1990 and 1991 G.O. Downtown Development Authority Bonds in the amounts of $210,000 and $1,550,000, respectively, are considered defeased.

On November 24, 1998, the City defeased a portion of the 1994 G.O. Downtown Development Authority Bonds, which are due and payable November 1, 2006 through November 1, 2014. This was accomplished by establishing an irrevocable trust with an escrow agent composed of cash and U.S. Government securities sufficient to meet the applicable principal and interest obligations. The City issued General Obligation Downtown Development Authority Refunding bonds in the amount of $3,835,000 to provide resources to fund the escrow amounts and pay the costs of the refunding bonds. Accordingly, the trust account assets and liabilities for the defeased bonds are not included in the City's financial statements. At June 30, 2006, bonds due and payable November 1, 2006 through November 1, 2014 for the 1994 G.O. Downtown Development Authority bonds in the amount of $2,995,000 are considered defeased.

NOTE H: RETIREMENT PLAN

Plan Description

The City participates in the Michigan Municipal Employees Retirement System, an agent multiple-employer defined benefit pension plan that covers all eligible full-time employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. The Michigan Municipal Employees Retirement System issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to the System 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 Council and by negotiation with the City's collective bargaining units. The plan requires no contribution from the employees.

Annual Pension Cost

For year ended June 30, 2006 the City's annual pension cost of $529,600 for the plan was equal to the City's required and actual contribution. The estimated annual required contribution was determined as part of an actuarial valuation at December 31, 2003, using the entry actual age cost method. Actual required contributions are based on actual reported monthly payroll. Significant actuarial assumptions used include (a) an 8.00 percent investment rate of return (b) projected salary increases of 4.5 percent per year compounded annually, attributable to inflation (c) additional salary increases ranging from 0% to 8.4% per year depending on age, seniority and merit, and (d) assumption benefits will not increase after retirement. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four (4) year period. The unfunded actuarial liability is being amortized as a level percentage of payroll over a period of thirty years.

NOTE H: RETIREMENT PLAN - CONTINUED

Three (3) year trend information

	Year Ended December 31,		
	2003	2004	2005
Actuarial value of assets	$ 4,585,285	$ 5,042,734	$ 5,342,789
Actuarial accrued liability (AAL) (entry age)	10,135,174	10,566,124	11,011,751
Unfunded AAL	5,549,889	5,523,370	5,668,962
Funded ratio	45 %	48 %	49 %
Covered payroll	2,561,484	2,445,789	2,603,199
UAAL as a percentage of covered payroll	217 %	226 %	218 %

	Year Ended June 30,		
	2004	2005	2006
Annual pension cost	$ 558,262	$ 512,143	$ 529,600
Percentage of APC contributed	100 %	100 %	100 %
Net pension obligation	-	-	-

This trend information was obtained from the MERS actuarial reports as of December 31, 2003, 2004, and 2005.

NOTE I: DEFERRED COMPENSATION PLAN

The City of Ionia offers its employees a choice of one (1) of three (3) deferred compensation plans. The plans sponsored by the ICMA Retirement Corporation, Nationwide Retirement Solutions, and Prudential Retirement Services were created in accordance with IRC Section #457. The plans, available to all City employees, permit them to defer a portion of their current salary until future years. The deferred compensation is not available to the employees until termination, retirement, death, or unforeseeable emergency.

Legislative change has been made to 457 plans which mandates that by no later than January 1, 1998, all existing 457 plan assets must be held in a custodial account, trust, or annuity contract for the benefit of participants and their beneficiaries.

Once a trust, custodial account, or annuity contract exists, assets are owned or held by the trust, custodian, or insurer for the exclusive benefit of participants and beneficiaries, and are not subject to the claims of public employers creditors nor can they be used by the public employer for any purpose other than the payment of benefits to these individuals participating in the plan or their designated beneficiaries. The ICMA Retirement Corporation and Public Employees Benefit Services Corporation have elected to implement compliance with the new requirement effective January 1, 1998. The plans assets previously maintained in an Agency Fund are no longer reported by the City because the new legislation has eliminated the requirements that Section 457 plan assets legally remain the assets of the sponsoring government.

NOTE J: RISK MANAGEMENT

The City participates in a State pool, the Michigan Municipal Liability and Property Pool, with other municipalities for property, liability, bonding, and casualty losses. The pool is organized under Public Act 138 of 1982, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

The City also participates in a pool, the Michigan Municipal Workers' Compensation Fund, with other municipalities for workers' compensation losses. The pool is organized under Public Act 317 of 1969, as amended. The City has no liability for additional assessments based on the claims filed against the pool nor do they have any right to dividends.

NOTE K: FUND EQUITY RESERVES

Reserved fund balances are used to earmark a portion of fund equity to indicate that it is not appropriate for expenditures or has been legally segregated for a specific future use.

The following are the various fund balances as of June 30, 2006:

Fund Balances	
General Fund	
Reserved for prepaids	$ 4,918
Special Revenue Funds	
Sick Pay Reserve	
Reserved for sick pay expenditures	344
Debt Service Funds	
Skyview/Gregmark	
Reserved for debt service	65
Ionia Building Authority	
Reserved for debt service	5,730
2002 G.O. Bonds	
Reserved for debt service	629
	6,424
Capital Projects Funds	
Grant Projects	
Reserved for grant activity	69,351
	$ 81,307

NOTE L: RESTRICTED NET ASSETS

Restrictions of net assets shown in the government-wide financial statements indicate that restrictions imposed by the funding source or some other outside source which precludes their use for unrestricted purposes. The following are the various net asset restrictions as of June 30, 2006:

PRIMARY GOVERNMENT	
Governmental Activities	
Restricted for streets	
Major Street	$ 3
Local Street	2,078
	$ 2,081
Restricted for grant activities	$ 69,351
Business-type Activities	
Restricted for debt service	
Water System	$ 827,217
Restricted for capital projects	
Sewer System	$ 343,363
Water System	238,325
	$ 581,688

NOTE M: CONTINGENT LIABILITIES

The City is a responsible party with respect to clean-up costs at the Cleveland Street Dump Site. The City is party to a Federal Consent Decree entered with the District Court during the fiscal year ended June 30, 2002. The terms of the Consent Decree limit the City's liability to a share of the clean-up costs associated with existing contamination as of the date of the decree. The City has received reimbursement costs related to clean up of this site through the Clean Michigan Initiative (CMI), however a reasonable estimate of the City's remaining potential liability cannot be determined at this time.

There is other legal action pending against the City. Due to the inconclusive nature of the action, it is not possible for Corporation Counsel to determine the probable outcome or a reasonable estimate of the potential liability, if any. This potential liability, if any, is considered by City Management and legal counsel to be immaterial or the potential liability would be covered by insurance.

NOTE N: FUND DEFICITS

The following fund has a fund equity deficit at June 30, 2006:

COMPONENT UNIT FUNDS	
Downtown Development Authority	$ 342,682

The City previously filed a deficit elimination plan with the State Department of Treasury for the Downtown Development Authority Fund. The State has approved that plan and the City is in compliance with the plan as of June 30, 2006.

NOTE O: CONTRACTUAL COMMITMENTS

The City has entered into various street project contracts related to infrastructure improvements that were not completed at June 30, 2006. The total contractual commitments outstanding at June 30, 2006 totaled $832,393. The City will have bond proceeds to cover these commitments.

NOTE P: EXCESS OF EXPENDITURES OVER APPROPRIATIONS

Michigan Public Act 621 of 1978, Sections 18 and 19, as amended, provides that a local governmental unit not incur expenditures in excess of the amounts appropriated. The approved budgets of the City have been adopted at the total expenditure level for the General and Special Revenue Funds.

During the year ended June 30, 2006, the City incurred expenditures in the Special Revenue Funds in excess of the amounts appropriated as follows:

	Amounts Appropriated	Amounts Expended	Variance
Major Street	$ 512,576	$ 543,890	$ 31,314
Local Street	317,900	329,962	12,062

REQUIRED SUPPLEMENTARY INFORMATION

City of Ionia

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES
AND OTHER FINANCING SOURCES

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Taxes				
Property taxes	$ 519,647	$ 463,406	$ 460,614	$ (2,792)
Income taxes	1,641,472	1,618,759	1,554,926	(63,833)
Payments in lieu of taxes	15,500	14,475	14,475	-0-
Penalties and interest	13,421	26,911	26,911	-0-
Total taxes	2,190,040	2,123,551	2,056,926	(66,625)
Licenses and permits				
City licenses and permits	9,993	125,000	102,652	(22,348)
Inspection fees	750	2,285	2,285	-0-
Total licenses and permits	10,743	127,285	104,937	(22,348)
Intergovernmental				
State				
Sales tax	937,390	915,437	915,436	(1)
Liquor tax	4,503	4,827	4,827	-0-
Federal				
Homeland security grants	50,000	915,794	744,262	(171,532)
CMET reimbursements	-	-	48,989	48,989
Summer food service program	-	6,920	6,918	(2)
Total intergovernmental	991,893	1,842,978	1,720,432	(122,546)
Charges for services				
Fire protection	291,000	313,272	313,271	(1)
Trash pick up and recycling charges	188,655	195,948	197,906	1,958
Trash bag charges	5,500	4,363	4,363	-0-
Administration charges	316,367	314,532	314,531	(1)
Tax collection fees	53,679	54,735	54,734	(1)
Total charges for services	855,201	882,850	884,805	1,955
Fines and forfeits				
Parking	3,570	4,264	4,264	-0-
District court	34,446	38,684	38,683	(1)
Total fines and forfeits	38,016	42,948	42,947	(1)
Interest and rents				
Interest	2,040	2,728	2,727	(1)
Rents	86,088	62,630	62,630	-0-
Total interest and rents	88,128	65,358	65,357	(1)

City of Ionia

General Fund

BUDGETARY COMPARISON SCHEDULE - REVENUES
AND OTHER FINANCING SOURCES - CONTINUED

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES - CONTINUED				
Other				
Special assessments	$ 10,440	$ 9,771	$ 9,771	$ -0-
Other	77,472	104,392	96,030	(8,362)
Other - public safety	44,055	65,670	68,034	2,364
Total other	131,967	179,833	173,835	(5,998)
TOTAL REVENUES	4,305,988	5,264,803	5,049,239	(215,564)
OTHER FINANCING SOURCES				
Transfers in	15,000	17,302	17,301	(1)
TOTAL REVENUES AND OTHER FINANCING SOURCES	$ 4,320,988	$ 5,282,105	$ 5,066,540	$ (215,565)

City of Ionia

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND OTHER FINANCING USES

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES				
General government				
Mayor and council	$ 21,618	$ 16,240	$ 17,056	$ (816)
City manager	103,592	92,550	93,250	(700)
Elections	9,218	5,762	3,734	2,028
Accounting	151,911	150,443	150,505	(62)
Independent audit	6,435	6,050	6,050	-0-
Income tax administration	105,777	102,651	102,131	520
Front office	69,485	69,653	69,718	(65)
City legal fees	34,000	68,000	67,188	812
Assessor	38,100	39,400	39,052	348
Grant activity	5,000	25,625	26,567	(942)
Board of review	725	875	871	4
Data processing	77,246	74,746	73,612	1,134
Clerk	18,111	15,600	18,304	(2,704)
Buildings and grounds	38,709	35,300	37,890	(2,590)
City property improvements	7,103	13,355	12,967	388
Sanitation services	194,155	194,155	199,493	(5,338)
Other offices	41,981	41,800	41,493	307
Fringe benefits	1,057,407	922,876	946,293	(23,417)
Other	16,950	9,224	1,377	7,847
Total general government	1,997,523	1,884,305	1,907,551	(23,246)
Public safety				
Building inspection	55,482	54,104	52,953	1,151
Public safety department	1,475,230	2,433,806	2,287,840	145,966
Total public safety	1,530,712	2,487,910	2,340,793	147,117
Public works				
Street lights	70,257	70,257	63,366	6,891
Health and welfare				
Ambulance	35,606	33,885	33,885	-0-
Community and economic development				
Planning and zoning	4,471	101,000	81,758	19,242
Recreation and cultural				
Festivals and events	62,421	63,459	65,299	(1,840)

City of Ionia

General Fund

BUDGETARY COMPARISON SCHEDULE - EXPENDITURES AND OTHER FINANCING USES - CONTINUED

Year Ended June 30, 2006

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
EXPENDITURES - CONTINUED				
Debt service				
Principal	$ 138,273	$ 138,273	$ 138,273	$ -0-
Interest	30,543	30,543	30,543	-0-
Total debt service	168,816	168,816	168,816	-0-
TOTAL EXPENDITURES	3,869,806	4,809,632	4,661,468	148,164
OTHER FINANCING USES				
Transfers out				
Local Street Fund	59,000	59,000	94,050	(35,050)
Recreation Fund	226,369	204,535	200,619	3,916
Building Authority Fund	105,738	105,738	105,737	1
Sidewalk Program Fund	60,075	60,075	60,075	-0-
Environmental Bond Issue Fund	-	128,500	143,707	(15,207)
TOTAL OTHER FINANCING USES	451,182	557,848	604,188	(46,340)
TOTAL EXPENDITURES AND OTHER FINANCING USES	$ 4,320,988	$ 5,367,480	$ 5,265,656	$ 101,824

OTHER SUPPLEMENTARY INFORMATION

City of Ionia

General Fund

SCHEDULE OF REVENUES AND EXPENDITURES - BUILDING INSPECTION

Years Ended June 30, 2006 and 2005

	2006	2005
Licenses and permits		
Permits	$ 102,652	$ 144,028
Inspection fees	2,285	1,345
TOTAL REVENUES	104,937	145,373
Salaries and wages	47,899	46,329
Contractual services	81,970	132,207
Office supplies	390	734
Publishing	842	922
Transportation and training	3,608	4,009
TOTAL EXPENDITURES	134,709	184,201
EXCESS OF REVENUES (UNDER) EXPENDITURES	$ (29,772)	$ (38,828)

City of Ionia

Nonmajor Governmental Funds

COMBINING BALANCE SHEET

June 30, 2006

	Special	
	Major Street	Local Street
ASSETS		
Cash and cash equivalents	$ (58,932)	$ (21,779)
Accounts receivable	80	870
Taxes receivable	-	-
Special assessments receivable	-	-
Due from other governmental units - State	70,786	25,768
TOTAL ASSETS	$ 11,934	$ 4,859
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ 6,424	$ 351
Accrued wages	5,175	2,332
Other accrued liabilities	332	98
Due to other funds	-	-
Deferred revenue	-	-
TOTAL LIABILITIES	11,931	2,781
FUND BALANCES		
Reserved for		
Sick pay expenditures	-	-
Debt service	-	-
Unreserved		
Undesignated, reported in		
Special revenue funds	3	2,078
Capital project funds	-	-
TOTAL FUND BALANCES	3	2,078
TOTAL LIABILITIES AND FUND BALANCES	$ 11,934	$ 4,859

Revenue		Debt Service		
Recreation	Sick Pay Reserve	Skyview/ Gregmark	Building Authority	2002 G.O. Bonds
$ 25,215	$ 344	$ 65	$ 5,730	$ 629
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
-	-	-	-	-
$ 25,215	$ 344	$ 65	$ 5,730	$ 629
$ 7,346	$ -	$ -	$ -	$ -
4,766	-	-	-	-
365	-	-	-	-
-	-	-	-	-
-	-	-	-	-
12,477	-0-	-0-	-0-	-0-
-	344	-	-	-
-	-	65	5,730	629
12,738	-	-	-	-
-	-	-	-	-
12,738	344	65	5,730	629
$ 25,215	$ 344	$ 65	$ 5,730	$ 629

City of Ionia

Nonmajor Governmental Funds

COMBINING BALANCE SHEET - CONTINUED

June 30, 2006

	Capital	
	Sidewalk Program	Building Authority
ASSETS		
Cash and cash equivalents	$ 51,549	$ 56,654
Accounts receivable	-	-
Taxes receivable	-	-
Special assessments receivable	716	-
Due from other governmental units - State	-	-
TOTAL ASSETS	$ 52,265	$ 56,654
LIABILITIES AND FUND BALANCES		
LIABILITIES		
Accounts payable	$ -	$ -
Accrued wages	-	-
Other accrued liabilities	-	-
Due to other funds	-	5,274
Deferred revenue	-	-
TOTAL LIABILITIES	-0-	5,274
FUND BALANCES		
Reserved for		
Sick pay expenditures	-	-
Debt service	-	-
Unreserved		
Undesignated, reported in		
Special revenue funds	-	-
Capital project funds	52,265	51,380
TOTAL FUND BALANCES	52,265	51,380
TOTAL LIABILITIES AND FUND BALANCES	$ 52,265	$ 56,654

Projects Environmental Bond Issue	Total Nonmajor Governmental Funds
$ 17,402	$ 76,877
-	950
10,912	10,912
-	716
-	96,554
$ 28,314	$ 186,009
$ 17,394	$ 31,515
-	12,273
-	795
-	5,274
10,912	10,912
28,306	60,769
-	344
-	6,424
-	14,819
8	103,653
8	125,240
$ 28,314	$ 186,009

City of Ionia

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES

Year Ended June 30, 2006

	Special	
	Major Street	Local Street
REVENUES		
Taxes	$ -	$ -
Intergovernmental	529,253	156,054
Charges for services	-	6,709
Interest and rents	-	-
Other	13,542	13,646
TOTAL REVENUES	542,795	176,409
EXPENDITURES		
Current		
Public works	450,441	281,639
Recreation and cultural	-	-
Capital outlay	-	-
Debt service	32,215	48,323
TOTAL EXPENDITURES	482,656	329,962
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	60,139	(153,553)
OTHER FINANCING SOURCES (USES)		
Transfers in	-	155,284
Transfers out	(61,234)	-
TOTAL OTHER FINANCING SOURCES (USES)	(61,234)	155,284
NET CHANGE IN FUND BALANCES	(1,095)	1,731
Fund balances (deficits), beginning of year	1,098	347
Fund balances, end of year	$ 3	$ 2,078

Revenue		Debt Service		
Recreation	Sick Pay Reserve	Skyview/ Gregmark	Building Authority	2002 G.O. Bonds
$ -	$ -	$ -	$ -	$ -
-	-	64,825	-	-
57,702	-	-	-	-
16,676	-	6	8	-
1,942	-	-	-	-
76,320	-0-	64,831	8	-0-
-	-	-	-	-
303,244	-	-	-	-
-	-	-	-	-
-	-	129,650	133,600	60,075
303,244	-0-	129,650	133,600	60,075
(226,924)	-0-	(64,819)	(133,592)	(60,075)
200,619	-	64,826	133,600	60,075
-	-	-	-	-
200,619	-0-	64,826	133,600	60,075
(26,305)	-0-	7	8	-0-
39,043	344	58	5,722	629
$ 12,738	$ 344	$ 65	$ 5,730	$ 629

City of Ionia

Nonmajor Governmental Funds

COMBINING STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - CONTINUED

Year Ended June 30, 2006

	Capital	
	Sidewalk Program	Building Authority
REVENUES		
Taxes	$ -	$ -
Intergovernmental	-	-
Charges for services	-	-
Interest and rents	1,905	1,340
Other	819	-
TOTAL REVENUES	2,724	1,340
EXPENDITURES		
Current		
Public works	-	-
Recreation and cultural	-	-
Capital outlay	1,732	-
Debt service	-	-
TOTAL EXPENDITURES	1,732	-0-
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	992	1,340
OTHER FINANCING SOURCES (USES)		
Transfers in	-	-
Transfers out	-	(17,301)
TOTAL OTHER FINANCING SOURCES (USES)	-0-	(17,301)
NET CHANGE IN FUND BALANCES	992	(15,961)
Fund balances (deficits), beginning of year	51,273	67,341
Fund balances, end of year	$ 52,265	$ 51,380

Projects Environmental Bond Issue	Total Nonmajor Governmental Funds
$ 220,425	$ 220,425
-	750,132
-	64,411
-	19,935
-	29,949
220,425	1,084,852
-	732,080
-	303,244
260,972	262,704
91,765	495,628
352,737	1,793,656
(132,312)	(708,804)
143,707	758,111
-	(78,535)
143,707	679,576
11,395	(29,228)
(11,387)	154,468
$ 8	$ 125,240

City of Ionia

Nonmajor Special Revenue Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL

Year Ended June 30, 2006

Major Street

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental				
State gas and weight tax	$ 461,314	$ 435,100	$ 434,253	$ (847)
Local	95,000	95,000	95,000	-0-
Other	50	11,856	13,542	1,686
TOTAL REVENUES	556,364	541,956	542,795	839
EXPENDITURES				
Current				
Public works				
Highways and streets				
Routine maintenance	1,963	2,110	2,107	3
Tree trimming	40,144	31,064	31,062	2
Stump removal	3,399	3,085	3,085	-0-
Surface/shoulder work	21,551	18,535	24,032	(5,497)
Storm sewers	21,254	17,029	17,028	1
Street sweeping	6,602	11,417	11,416	1
Street painting	4,072	4,698	4,696	2
Leaf pickup	23,767	24,660	24,659	1
Brush pickup	32,796	33,731	37,105	(3,374)
Guardrails and posts	-	161	161	-0-
Traffic service	15,707	28,317	28,316	1
Winter maintenance	27,585	26,076	26,075	1
Central garage contract - DDA	107,763	114,780	137,234	(22,454)
Administration	145,109	94,077	103,465	(9,388)
Total highways and streets	451,712	409,740	450,441	(40,701)
Debt service	39,487	41,603	32,215	9,388
TOTAL EXPENDITURES	491,199	451,343	482,656	(31,313)
EXCESS OF REVENUES OVER EXPENDITURES	65,165	90,613	60,139	(30,474)

City of Ionia

Nonmajor Special Revenue Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

Major Street

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
OTHER FINANCING USES				
Transfers out	$ (65,165)	$ (61,233)	$ (61,234)	$ (1)
NET CHANGE IN FUND BALANCE	-0-	29,380	(1,095)	(30,475)
Fund balance, beginning of year	1,098	1,098	1,098	-0-
Fund balance, end of year	$ 1,098	$ 30,478	$ 3	$ (30,475)

City of Ionia

Nonmajor Special Revenue Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

Local Street

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Intergovernmental				
State gas and weight tax	$ 167,064	$ 162,798	$ 156,054	$ (6,744)
Charges for services	7,873	7,873	6,709	(1,164)
Miscellaneous	100	11,906	13,646	1,740
TOTAL REVENUES	175,037	182,577	176,409	(6,168)
EXPENDITURES				
Public works				
Highways and streets				
Routine maintenance	1,145	1,706	1,705	1
Tree trimming	25,701	26,838	26,837	1
Stump removal	3,160	3,299	3,298	1
Surface/shoulder work	23,296	21,718	26,785	(5,067)
Storm sewers	24,172	21,916	21,915	1
Street sweeping	4,329	6,360	6,359	1
Street painting	696	1,515	1,514	1
Leaf pickup	26,395	25,937	25,935	2
Brush pickup	27,387	35,483	39,834	(4,351)
Guardrails and posts	128	333	333	-0-
Yard waste collection	7,872	7,790	7,789	1
Traffic service	9,909	21,323	21,322	1
Winter maintenance	24,185	24,309	24,307	2
Administration	65,232	61,663	73,706	(12,043)
Total highway and streets	243,607	260,190	281,639	(21,449)
Debt service	55,595	57,710	48,323	9,387
TOTAL EXPENDITURES	299,202	317,900	329,962	(12,062)
EXCESS OF REVENUES (UNDER) EXPENDITURES	(124,165)	(135,323)	(153,553)	(18,230)

City of Ionia

Nonmajor Special Revenue Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

Local Street

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
OTHER FINANCING SOURCES				
Transfers in	$ 124,165	$ 135,323	$ 155,284	$ 19,961
NET CHANGE IN FUND BALANCE	-0-	-0-	1,731	1,731
Fund balance, beginning of year	347	347	347	-0-
Fund balance, end of year	$ 347	$ 347	$ 2,078	$ 1,731

City of Ionia

Nonmajor Special Revenue Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

Recreation

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES				
Charges for services				
Ticket sales	$ 6,000	$ 3,727	$ 3,727	$ -0-
Activities	34,164	35,456	34,201	(1,255)
Special events	20,005	19,775	19,774	(1)
Interest and rents	24,912	16,606	16,676	70
Other	500	1,612	1,942	330
TOTAL REVENUES	85,581	77,176	76,320	(856)
EXPENDITURES				
Recreation and cultural				
Administration	149,946	131,364	131,319	45
Special events	15,700	43,475	43,468	7
Adult activities	6,616	3,438	3,436	2
Youth activities	26,050	19,608	18,089	1,519
Armory	40,409	38,759	38,055	704
Park maintenance	70,654	68,881	68,877	4
Park grant project	2,575	-	-	-0-
TOTAL EXPENDITURES	311,950	305,525	303,244	2,281
EXCESS OF REVENUES (UNDER) EXPENDITURES	(226,369)	(228,349)	(226,924)	1,425
OTHER FINANCING SOURCES				
Operating transfers in	226,369	204,535	200,619	(3,916)
NET CHANGE IN FUND BALANCE	-0-	(23,814)	(26,305)	(2,491)
Fund balance, beginning of year	39,043	39,043	39,043	-0-
Fund balance, end of year	$ 39,043	$ 15,229	$ 12,738	$ (2,491)

City of Ionia

Nonmajor Special Revenue Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL - CONTINUED

Year Ended June 30, 2006

Sick Pay Reserve

	Original Budget	Final Amended Budget	Actual	Variance with Final Budget Positive (Negative)
REVENUES	$ -	$ -	$ -	$ -0-
EXPENDITURES	-	-	-	-0-
EXCESS REVENUES OVER EXPENDITURES	-0-	-0-	-0-	-0-
Fund balance, beginning of year	344	344	344	-0-
Fund balance, end of year	$ 344	$ 344	$ 344	$ -0-

City of Ionia

Major Capital Projects Fund

SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE

Year Ended June 30, 2006

	Grant Projects
REVENUES	
Intergovernmental	
Federal/State	$ 47,095
Local	411,967
TOTAL REVENUES	459,062
EXPENDITURES	
Capital outlay	
Adams Street	
Contractual service	1,059
GIS/AVL 800 MGZ	
Contractual services	72,612
SDS#1 projects	
Contractual services	31,219
Construction	99,385
Total SDS#1 projects	130,604
Downtown gateway project	
Contractual services	87,531
Construction	48,130
Total downtown gateway project	135,661
Rice and Yeomans Streets	
Contractual services	23,920
M-21 water main	
Contractual services	17,446
Construction	265,351
Total M-21 water main	282,797
Washington, Stevenson, & Morse	
Contractual services	130,271
Construction	1,331,438
Total Washington, Stevenson, & Morse	1,461,709
Center/Pleasant/Summit/Tower	
Contractual services	351,965

City of Ionia

Major Capital Projects Fund

SCHEDULE OF REVENUES, EXPENDITURES,
AND CHANGES IN FUND BALANCE - CONTINUED

Year Ended June 30, 2006

	Grant Projects
High and Baldie Streets	
Contractual services	$ 103,918
Construction	1,021,102
Total High and Baldie Streets	1,125,020
M-66 utility improvements	
Contractual services	15,516
TOTAL EXPENDITURES	3,600,863
EXCESS OF REVENUES (UNDER) EXPENDITURES	(3,141,801)
OTHER FINANCING SOURCES	
Transfers in	3,182,519
NET CHANGE IN FUND BALANCE	40,718
Fund balance, beginning of year	28,633
Fund balance, end of year	$ 69,351

City of Ionia

Component Unit Funds

BALANCE SHEET - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

	Special Revenue
ASSETS	
Cash and cash equivalents	$ (339,394)
Taxes receivable	9,092
TOTAL ASSETS	$ (330,302)
LIABILITIES AND FUND DEFICIT	
LIABILITIES	
Accounts payable	$ 3,288
Deferred revenue	9,092
TOTAL LIABILITIES	12,380
FUND DEFICIT	
Unreserved - undesignated	(342,682)
TOTAL LIABILITIES AND FUND DEFICIT	$ (330,302)

City of Ionia

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO
THE STATEMENT OF NET ASSETS - DOWNTOWN DEVELOPMENT AUTHORITY

June 30, 2006

Total fund balance - governmental fund		$ (342,682)
Amounts reported for the governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in the governmental funds.		
The cost of capital assets is		375,256
Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:		
Deferred revenue		9,092
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Accrued interest payable	39,558	
Loan payable	5,020,000	
		(5,059,558)
Net assets of governmental activities		$ (5,017,892)

City of Ionia

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

	Special Revenue
REVENUES	
Taxes	$ 1,348,912
Interest	5,220
TOTAL REVENUES	1,354,132
EXPENDITURES	
Community and economic development	192,762
Debt service	
Principal	710,000
Interest	266,551
TOTAL EXPENDITURES	1,169,313
EXCESS OF REVENUES OVER EXPENDITURES	184,819
Fund deficit, beginning of year	(527,501)
Fund deficit, end of year	$ (342,682)

City of Ionia

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - DOWNTOWN DEVELOPMENT AUTHORITY

Year Ended June 30, 2006

Net change in fund balance - governmental fund	$ 184,819
Amounts reported for governmental activities in the statement of activities are different because:	
Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds.	(873)
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:	
Bond principal retirement	710,000
Some items reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These activities consist of:	
Decrease in accrued interest payable	24,775
Change in net assets of governmental activities	$ 918,721

City of Ionia

Component Unit Funds

BALANCE SHEET - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2006

	Special Revenue
ASSETS	
Cash and cash equivalents	$ 2,330
Taxes receivable	9,357
TOTAL ASSETS	$ 11,687
LIABILITIES AND FUND BALANCE	
LIABILITIES	
Deferred revenue	$ 9,357
FUND BALANCE	
Unreserved - undesignated	2,330
TOTAL LIABILITIES AND FUND BALANCE	$ 11,687

City of Ionia

Component Unit Funds

RECONCILIATION OF THE BALANCE SHEET TO THE STATEMENT
OF NET ASSETS - LOCAL DEVELOPMENT FINANCE AUTHORITY

June 30, 2006

Total fund balance - governmental fund	$	2,330
Amounts reported for the governmental activities in the statement of net assets are different because:		
Long-term receivables are not available to pay for current period expenditures and are therefore deferred in the funds. These consist of:		
Deferred revenue		9,357
Long-term liabilities are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year-end consist of:		
Loan payable		(721,505)
Net assets of governmental activities	$	(709,818)

City of Ionia

Component Unit Funds

STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES - LOCAL DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2006

	Special Revenue
REVENUES	
Taxes	$ 14,191
Interest	604
TOTAL REVENUES	14,795
EXPENDITURES	
Community and economic development	
Administrative	2,900
Debt service	11,500
TOTAL EXPENDITURES	14,400
EXCESS OF REVENUES OVER EXPENDITURES	395
Fund balance, beginning of year	1,935
Fund balance, end of year	$ 2,330

City of Ionia

Component Unit Funds

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES OF THE GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES - LOCAL DEVELOPMENT FINANCE AUTHORITY

Year Ended June 30, 2006

Net change in fund balance - governmental fund		$ 395
Amounts reported for governmental activities in the statement of activities are different because:		
Repayment of long-term debt and borrowing of long-term debt is reported as expenditures and other financing sources in governmental funds, but the repayment reduces long-term liabilities and the borrowings increase long-term liabilities in the statement of net assets. In the current year, these amounts consist of:		
Bond principal and capital lease retirement	11,500	
Change in principal balance	(35,236)	
		(23,736)
Change in net assets of governmental activities		$ (23,341)

City of Ionia

SCHEDULE OF DEBT OUTSTANDING

June 30, 2006

1990 Environmental Bonds

Purpose: To defray the costs of protecting and restoring the environment by cleaning up contaminated or toxic waste sites in the City of Ionia and paying for facilities and services incidental thereto.

Issue: $ 975,000

Issue date: December 1, 1990

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
4/1/2007	6.75 %	$ 40,000	$ 44,212	$ 84,212
4/1/2008	6.75	40,000	41,512	81,512
4/1/2009	6.75	45,000	38,812	83,812
4/1/2010	6.75	50,000	35,776	85,776
4/1/2011	6.75	55,000	32,400	87,400
4/1/2012	6.75	60,000	28,688	88,688
4/1/2013	6.75	60,000	24,638	84,638
4/1/2014	6.75	65,000	20,588	85,588
4/1/2015	6.75	75,000	16,200	91,200
4/1/2016	6.75	80,000	11,138	91,138
4/1/2017	6.75	85,000	5,738	90,738
		$ 655,000	$ 299,702	$ 954,702

1992 Ionia Building Authority Bonds

Purpose: To defray the costs of acquiring, constructing, reconstructing, and equipping public safety facilities for the City of Ionia, which the Authority has leased to the City.

Issue: $ 600,000

Issue date: August 1, 1992

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
10/1/2006	6.25 %	$ 55,000	$ 5,157	$ 60,157
10/1/2007	6.25	55,000	1,719	56,719
		$ 110,000	$ 6,876	$ 116,876

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

1995 Public Improvement Special Assessment Bonds

Purpose: To finance the costs of water, sewer, and street improvements in certain special assessment districts in the City of Ionia in anticipation of the collection of future due installments of special assessments.

Issue: $ 1,310,000

Issue date: October 1, 1995

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
10/1/2006	5.20 %	$ 100,000	$ 24,550	$ 124,550
10/1/2007	5.30	100,000	19,300	119,300
10/1/2008	5.40	100,000	13,950	113,950
10/1/2009	5.50	100,000	8,500	108,500
10/1/2010	5.75	100,000	2,875	102,875
		$ 500,000	$ 69,175	$ 569,175

1999 Water Supply Revenue Refunding Bonds

Purpose: To defray the cost of acquiring and constructing improvements to the City's Water System and to pay the cost of refunding the City's outstanding 1981 Water System Revenue Bonds.

Issue: $ 8,400,000

Issue date: August 19, 1999

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
7/1/2007	5.90 %	$ 400,000	$ 300,962	$ 700,962
7/1/2008	5.00	400,000	280,962	680,962
7/1/2009	5.00	450,000	260,962	710,962
7/1/2010	5.00	450,000	238,462	688,462
7/1/2011	4.85	475,000	216,638	691,638
7/1/2012	4.90	525,000	193,362	718,362
7/1/2013	4.95	525,000	167,375	692,375
7/1/2014	5.00	550,000	141,125	691,125
7/1/2015	5.00	600,000	113,625	713,625
7/1/2016	4.50	625,000	86,625	711,625
7/1/2017	4.50	650,000	58,500	708,500
7/1/2018	4.50	650,000	29,250	679,250
		$ 6,300,000	$ 2,087,848	$ 8,387,848

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

1997 Streetlight Project Loan

Purpose: To finance the cost of streetlights for certain special assessment districts in the City of Ionia in anticipation of the collection of future due installments of special assessments.

Issue: $ 250,000

Issue date: January 17, 1997

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
7/15/2006	5.14 %	$ 15,432	$ 761	$ 16,193
1/15/2007	5.14	14,825	376	15,201
		$ 30,257	$ 1,137	$ 31,394

2001 Building Authority Bonds

Purpose: To improve enlarge, furnish, equip and maintain facilities owned and operated by the City.

Issue: $ 950,000

Issue date: June 1, 2001

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2006	8.00 %	$ 25,000	$ 47,250	$ 72,250
8/1/2007	8.00	25,000	45,250	70,250
8/1/2008	8.00	50,000	42,250	92,250
8/1/2009	8.00	50,000	38,250	88,250
8/1/2010	5.00	50,000	35,000	85,000
8/1/2011	5.00	50,000	32,500	82,500
8/1/2012	5.00	50,000	30,000	80,000
8/1/2013	5.00	50,000	27,500	77,500
8/1/2014	5.00	50,000	25,000	75,000
8/1/2015	5.00	75,000	21,875	96,875
8/1/2016	5.00	75,000	18,125	93,125
8/1/2017	5.00	75,000	14,375	89,375
8/1/2018	5.00	75,000	10,625	85,625
8/1/2019	5.00	75,000	6,875	81,875
8/1/2020	5.00	100,000	2,500	102,500
		$ 875,000	$ 397,375	$ 1,272,375

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

1997 Downtown Development Authority Refunding Bonds

Purpose: To pay for the cost of refunding a portion of the 1990 Downtown Development Bonds, the 1991 Downtown Development Bonds and issuance costs of the bonds.

Issue: $ 4,005,000

Issue date: May 15, 1997

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
5/1/2007	5.60 %	$ 410,000	$ 103,000	$ 513,000
5/1/2008	5.70	460,000	80,040	540,040
5/1/2009	5.80	460,000	53,820	513,820
5/1/2010	5.90	460,000	27,140	487,140
		$ 1,790,000	$ 264,000	$ 2,054,000

1998 Downtown Development Authority Refunding Bonds

Purpose: To pay for the cost of refunding a portion of the 1994 Downtown Development Bonds and issuance costs of the bonds.

Issue: $ 3,835,000

Issue date: November 24, 1998

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
11/1/2006	3.90 %	$ 305,000	$ 128,399	$ 433,399
11/1/2007	4.00	315,000	116,153	431,153
11/1/2008	4.05	325,000	103,272	428,272
11/1/2009	4.10	340,000	89,720	429,720
11/1/2010	4.15	355,000	75,384	430,384
11/1/2011	4.20	370,000	60,248	430,248
11/1/2012	4.25	390,000	44,190	434,190
11/1/2013	4.30	405,000	27,195	432,195
11/1/2014	4.35	425,000	9,244	434,244
		$ 3,230,000	$ 653,805	$ 3,883,805

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

1999 Sewer Basin Truck

Purpose: To finance the purchase a new Sewer Basin Truck for use by the City of Ionia.

Issue: $ 170,000

Issue date: September 2, 1999

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
7/30/2006	5.05 %	$ 14,347	$ 212	$ 14,559

2001 Michigan Transportation Bonds

Purpose: To finance improvements to the streets in the City.

Issue: $ 900,000

Issue date: May 1, 2001

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2006	3.90 %	$ 50,000	$ 28,337	$ 78,337
8/1/2007	4.00	50,000	26,362	76,362
8/1/2008	4.10	50,000	24,337	74,337
8/1/2009	4.25	50,000	22,250	72,250
8/1/2010	4.45	75,000	19,519	94,519
8/1/2011	4.55	75,000	16,144	91,144
8/1/2012	4.65	75,000	12,694	87,694
8/1/2013	4.75	75,000	9,169	84,169
8/1/2014	4.85	75,000	5,569	80,569
8/1/2015	5.00	75,000	1,875	76,875
		$ 650,000	$ 166,256	$ 816,256

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2002 General Obligation Limited Tax Bonds

Purpose: To pay portion of costs for improvements to Special Assessment District.

Issue: $ 265,000

Issue date: June 25, 2002

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
9/1/2006	3.300 %	$ 55,000	$ 1,988	$ 56,988
3/1/2007	3.300	-	1,080	1,080
9/1/2007	3.600	60,000	1,080	61,080
		$ 115,000	$ 4,148	$ 119,148

2003 Street Sweeper Loan

Purpose: To finance the purchase of a new street sweeper.

Issue: $ 143,100

Issue date: September 4, 2002

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
12/1/2006	4.68 %	$ 20,644	$ 3,018	$ 23,662
12/1/2007	4.68	21,610	2,052	23,662
12/1/2008	4.68	22,263	1,399	23,662
		$ 64,517	$ 6,469	$ 70,986

2004 Dump Truck Loan

Purpose: To finance the purchase of a new dump truck.

Issue: $ 87,987

Issue date: August 5, 2003

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
9/30/2006	3.97 %	$ 18,212	$ 893	$ 19,105
9/30/2007	3.97	17,857	708	19,105
		$ 36,069	$ 1,601	$ 38,210

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2001 Water and Sewer Improvement Bonds

Purpose: To make improvements to the Water and Sewer Systems.

Issue: $ 3,600,000

Issue date: August 1, 2001

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2006	4.00 %	$ 89,500	$ 67,511	$ 157,011
2/1/2007	4.00	-	65,720	65,720
8/1/2007	4.00	134,250	65,720	199,970
2/1/2008	4.00	-	63,036	63,036
8/1/2008	4.00	134,250	63,036	197,286
2/1/2009	4.00	-	60,351	60,351
8/1/2009	4.00	134,250	60,351	194,601
2/1/2010	4.00	-	57,666	57,666
8/1/2010	4.00	179,000	57,666	236,666
2/1/2011	4.00	-	54,086	54,086
8/1/2011	4.25	179,000	54,086	233,086
2/1/2012	4.25	-	50,282	50,282
8/1/2012	4.25	201,375	50,282	251,657
2/1/2013	4.25	-	46,003	46,003
8/1/2013	5.00	201,375	46,003	247,378
2/1/2014	5.00	-	40,969	40,969
8/1/2014	5.00	223,750	40,969	264,719
2/1/2015	5.00	-	35,375	35,375
8/1/2015	5.00	223,750	35,375	259,125
2/1/2016	5.00	-	29,781	29,781
8/1/2016	4.70	223,750	29,781	253,531
2/1/2017	4.70	-	24,187	24,187
8/1/2017	4.70	223,750	24,187	247,937
2/1/2018	4.70	-	18,929	18,929
8/1/2018	4.70	268,500	18,929	287,429
2/1/2019	4.70	-	12,620	12,620
8/1/2019	4.70	268,500	12,620	281,120
2/1/2020	4.70	-	6,310	6,310
8/1/2020	4.70	268,500	6,310	274,810
		$ 2,953,500	$ 1,198,141	$ 4,151,641

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2004 Equipment Note

Purpose: To purchase a tanker truck and payoff three (3) existing higher interest rate debt issues.

Issue: $ 842,136

Issue date: August 25, 2003

Due Date	Interest Rate	Bonds Maturing	Interest Due	Total Amount Due
10/15/2006	3.90 %	$ 79,794	$ 23,540	$ 103,333
10/15/2007	3.90	82,961	20,372	103,333
10/15/2008	3.90	86,255	17,078	103,333
10/15/2009	3.90	338,705	13,653	352,359
		$ 587,715	$ 74,643	$ 662,358

2004 Water and Sewer Improvement Bonds

Purpose: To pay for costs for construction and improvements to the water and sewer system.

Issue: $ 4,200,000

Issue date: April 1, 2004

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2006	3.00 %	$ -	$ 71,330	$ 71,330
2/1/2007	3.00	-	71,330	71,330
8/1/2007	3.00	60,000	71,330	131,330
2/1/2008	3.00	-	70,430	70,430
8/1/2008	3.00	60,000	70,430	130,430
2/1/2009	3.00	-	69,530	69,530
8/1/2009	3.00	60,000	69,530	129,530
2/1/2010	3.00	-	68,630	68,630
8/1/2010	3.50	60,000	68,630	128,630
2/1/2011	3.50	-	67,580	67,580
8/1/2011	3.50	60,000	67,580	127,580
2/1/2012	3.50	-	66,530	66,530
8/1/2012	3.75	80,000	66,530	146,530
2/1/2013	3.75	-	65,030	65,030
8/1/2013	4.00	80,000	65,030	145,030
2/1/2014	4.00	-	63,430	63,430
8/1/2014	4.00	100,000	63,430	163,430
2/1/2015	4.00	-	61,430	61,430

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2004 Water and Sewer Improvement Bonds - continued

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2015	4.00 %	$ 100,000	$ 61,430	$ 161,430
2/1/2016	4.00	-	59,430	59,430
8/1/2016	4.00	120,000	59,430	179,430
2/1/2017	4.00	-	57,030	57,030
8/1/2017	4.00	120,000	57,030	177,030
2/1/2018	4.00	-	54,630	54,630
8/1/2018	4.13	140,000	54,630	194,630
2/1/2019	4.13	-	51,742	51,742
8/1/2019	4.13	140,000	51,742	191,742
2/1/2020	4.13	-	48,855	48,855
8/1/2020	4.25	140,000	48,855	188,855
2/1/2021	4.25	-	45,880	45,880
8/1/2021	4.25	200,000	45,880	245,880
2/1/2022	4.25	-	41,630	41,630
8/1/2022	4.38	200,000	41,630	241,630
2/1/2023	4.38	-	37,255	37,255
8/1/2023	4.38	200,000	37,255	237,255
2/1/2024	4.38	-	32,880	32,880
8/1/2024	4.50	240,000	32,880	272,880
2/1/2025	4.50	-	27,480	27,480
8/1/2025	4.50	240,000	27,480	267,480
2/1/2026	4.50	-	22,080	22,080
8/1/2026	4.60	240,000	22,080	262,080
2/1/2027	4.60	-	16,560	16,560
8/1/2027	4.60	240,000	16,560	256,560
2/1/2028	4.60	-	11,040	11,040
8/1/2028	4.60	240,000	11,040	251,040
2/1/2029	4.60	-	5,520	5,520
8/1/2029	4.60	240,000	5,520	245,520
		$ 3,360,000	$ 2,303,194	$ 5,663,194

2005 Equipment Note

Purpose: To finance the purchase of 3 new police cars.

Issue: $ 63,645

Issue date: February 4, 2005

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
9/1/2006	3.45 %	$ 31,822	$ 2,227	$ 34,049

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2005 Water and Sewer Improvement Bonds

Purpose: To pay for costs for construction and improvements to the Water and Sewer Systems.

Issue: $ 3,700,000

Issue date: May 1, 2005

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2006	3.50 %	$ -	$ 67,737	$ 67,737
2/1/2007	3.50	-	67,737	67,737
8/1/2007	3.50	22,500	67,737	90,237
2/1/2008	3.50	-	67,343	67,343
8/1/2008	3.50	45,000	67,343	112,343
2/1/2009	3.50	-	66,555	66,555
8/1/2009	3.50	67,500	66,555	134,055
2/1/2010	3.50	-	72,639	72,639
8/1/2010	3.50	90,000	65,374	155,374
2/1/2011	3.50	-	63,799	63,799
8/1/2011	3.50	90,000	63,799	153,799
2/1/2012	3.50	-	62,224	62,224
8/1/2012	3.50	90,000	62,224	152,224
2/1/2013	3.50	-	60,649	60,649
8/1/2013	3.60	112,500	60,649	173,149
2/1/2014	3.60	-	58,624	58,624
8/1/2014	3.60	112,500	58,624	171,124
2/1/2015	3.60	-	56,598	56,598
8/1/2015	3.65	112,500	56,598	169,098
2/1/2016	3.65	-	54,545	54,545
8/1/2016	3.70	135,000	54,545	189,545
2/1/2017	3.70	-	52,048	52,048
8/1/2017	3.80	135,000	52,048	187,048
2/1/2018	3.80	-	49,483	49,483
8/1/2018	3.90	135,000	49,483	184,483
2/1/2019	3.90	-	46,850	46,850
8/1/2019	4.00	157,500	46,850	204,350
2/1/2020	4.00	-	43,700	43,700
8/1/2020	4.10	157,500	43,700	201,200
2/1/2021	4.10	-	40,471	40,471
8/1/2021	4.10	157,500	40,471	197,971
2/1/2022	4.10	-	37,243	37,243
8/1/2022	4.20	180,000	37,243	217,243
2/1/2023	4.20	-	33,463	33,463
8/1/2023	4.20	180,000	33,463	213,463
2/1/2024	4.20	-	29,683	29,683
8/1/2024	4.20	202,500	29,683	232,183
2/1/2025	4.30	-	25,330	25,330

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2005 Water and Sewer Improvement Bonds - continued

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
8/1/2025	4.30 %	$ 202,500	$ 25,330	$ 227,830
2/1/2026	4.30	-	20,975	20,975
8/1/2026	4.40	225,000	20,975	245,975
2/1/2027	4.40	-	16,025	16,025
8/1/2027	4.40	225,000	16,025	241,025
2/1/2028	4.40	-	11,075	11,075
8/1/2028	4.45	247,500	11,075	258,575
2/1/2029	4.45	-	5,569	5,569
8/1/2029	4.50	247,500	5,569	253,069
		$ 3,330,000	$ 2,145,728	$ 5,475,728

2006 Water and Sewer Improvement Bonds

Purpose: To pay for costs for construction and improvements to the Water and Sewer Systems.

Issue: $ 1,500,000

Issue date: May 1, 2006

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
2/1/2007	6.00 %	$ -	$ 49,646	$ 49,646
8/1/2007	6.00	22,500	33,098	55,598
2/1/2008	6.00	-	32,423	32,423
8/1/2008	6.00	22,500	32,423	54,923
2/1/2009	6.00	-	31,748	31,748
8/1/2009	6.00	22,500	31,748	54,248
2/1/2010	6.00	-	31,073	31,073
8/1/2010	6.00	22,500	31,073	53,573
2/1/2011	6.00	-	30,398	30,398
8/1/2011	6.00	22,500	30,398	52,898
2/1/2012	6.00	-	29,723	29,723
8/1/2012	6.00	45,000	29,723	74,723
2/1/2013	6.00	-	28,373	28,373
8/1/2013	6.00	45,000	28,373	73,373
2/1/2014	6.00	-	27,023	27,023
8/1/2014	6.00	45,000	27,023	72,023
2/1/2015	6.00	-	25,673	25,673
8/1/2015	6.00	45,000	25,673	70,673
2/1/2016	6.00	-	24,323	24,323
8/1/2016	4.60	45,000	24,323	69,323

City of Ionia

SCHEDULE OF DEBT OUTSTANDING - CONTINUED

June 30, 2006

2006 Water and Sewer Improvement Bonds - continued

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
2/1/2017	4.60 %	$ -	$ 23,288	$ 23,288
8/1/2017	4.60	67,500	23,288	90,788
2/1/2018	4.60	-	21,735	21,735
8/1/2018	4.60	67,500	21,735	89,235
2/1/2019	4.60	-	20,183	20,183
8/1/2019	4.60	67,500	20,183	87,683
2/1/2020	4.60	-	18,630	18,630
8/1/2020	4.60	67,500	18,630	86,130
2/1/2021	4.60	-	17,078	17,078
8/1/2021	4.60	67,500	17,078	84,578
2/1/2022	4.60	-	15,525	15,525
8/1/2022	4.60	67,500	15,525	83,025
2/1/2023	4.60	-	13,973	13,973
8/1/2023	4.60	67,500	13,973	81,473
2/1/2024	4.60	-	12,420	12,420
8/1/2024	4.60	90,000	12,420	102,420
2/1/2025	4.60	-	10,350	10,350
8/1/2025	4.60	90,000	10,350	100,350
2/1/2026	4.60	-	8,280	8,280
8/1/2026	4.60	90,000	8,280	98,280
2/1/2027	4.60	-	6,210	6,210
8/1/2027	4.60	90,000	6,210	96,210
2/1/2028	4.60	-	4,140	4,140
8/1/2028	4.60	90,000	4,140	94,140
2/1/2029	4.60	-	2,070	2,070
8/1/2029	4.60	90,000	2,070	92,070
		$ 1,350,000	$ 952,009	$ 2,302,009

2006 Promissory Note

Purpose: To finance the purchase of 4 new pickup trucks.

Issue: $ 75,348

Issue date: November 17, 2005

Due Date	Interest Rate	Principal Due	Interest Due	Total Amount Due
11/17/2006	4.13 %	$ 24,137	$ 3,112	$ 27,249
11/17/2007	4.13	25,134	2,115	27,249
11/17/2008	4.13	26,077	1,172	27,249
		$ 75,348	$ 6,399	$ 81,747

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

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

We have audited the financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the City of Ionia, Michigan as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements and have issued our report thereon dated September 21, 2006. 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 Ionia's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the basic financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance and Other Matters

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

We noted certain matters that we reported to management of the City of Ionia, Michigan, in a separate letter dated September 21, 2006.

This report is intended solely for the information and use of management and the City Council of the City of Ionia, Michigan, Federal awarding agencies, and pass-through entities, and is not intended to be and should not be used by anyone other than these specified parties.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2006

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MANAGEMENT LETTER

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

As you know, we have recently completed our audit of the records of the City of Ionia, Michigan as of and for the year ended June 30, 2006. In connection with the audit, we feel that certain changes in your accounting and administrative procedures would be helpful in improving management's control and the operational efficiency of the accounting and administrative functions. These suggestions are a result of our evaluation of the internal control and our discussions with management.

1. The City should monitor and amend budgets when necessary.

   As noted in the annual financial statements, some of the budgeted activities of the City exceeded the amounts appropriated. The variances noted were in two (2) Special Revenue Funds.

   The Michigan Public Act 621 of 1978, as amended, provides that the City shall not incur expenditures in excess of the amounts appropriated.

   We suggest the City monitor expenditures against the adopted budget on a periodic basis, preferably monthly. Appropriate budget amendments should be adopted by Council as needed.

2. The City should review the status of individual fund balances (deficits) near year-end.

   The City had one (1) fund (component unit DDA Fund) that ended the year in a deficit financial position. As discussed in Note N to the financial statements, the City has previously filed a deficit elimination plan with the State Department of Treasury for this fund. The State has approved that plan and the City remains in compliance with the plan as of June 30, 2006. However, the City will likely be required to submit an update to the plan, such as a declaration of continued commitment, to the State of Michigan.

   We suggest the City continually review the status of individual funds near year-end and make appropriate adjustments when possible to eliminate deficits.

3. The City should ensure that all of its bank accounts have the same Employer Identification Number.

   During the course of the audit, it was noted that the Ionia Theatre's Employer Identification Number (EIN) is different than the City's. The City's management was previously unaware of this issue and will be discussing this issue with the Theatre during the fiscal year to work on changing the Employer Identification Number of the Theatre to that of the City.

These conditions were considered in determining the nature, timing, and extent of the audit tests to be applied in our audit of the basic financial statements, and this report does not affect our report on the financial statements dated September 21, 2006.

This report is intended solely for the information of management, the Mayor, and members of the City Council of the City of Ionia and is not intended to be, and should not be, used by anyone other than these specified parties.

We wish to express our appreciation for the courtesy and cooperation extended to us during our audit. We are available to discuss this suggestion with you and to provide assistance in the implementation of improvements.

Abraham & Gaffney, P.C.

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

September 21, 2006