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 Dial-A-Ride	Ionia

Fiscal Year End	Opinion Date	Date Audit Report Submitted to State
6/30/2006	9/21/2006	11/10/06

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	☒	N/A
Other (Describe)	☒	N/A

Certified Public Accountant (Firm Name)	Telephone Number
Abraham & Gaffney, P.C.	(517) 351-6836

Street Address	City	State	Zip
3511 Coolidge Road, Suite 100	East Lansing	MI	48823

Authorizing CPA Signature	Printed Name	License Number
Aaron M. Stevens	Aaron M. Stevens, CPA	1101024055

City of Ionia
Dial-A-Ride Transit Fund

FINANCIAL STATEMENTS

June 30, 2006

City of Ionia
DIAL-A-RIDE TRANSIT FUND

TABLE OF CONTENTS

June 30, 2006

	Page
INDEPENDENT AUDITOR'S REPORT	i-ii
MANAGEMENT'S DISCUSSION AND ANALYSIS	iii-viii
FINANCIAL STATEMENTS	
Statements of Net Assets	1
Statements of Revenues, Expenses, and Changes in Fund Net Assets	2
Statements of Cash Flows	3
Notes to Financial Statements	4-8
OTHER SUPPLEMENTARY INFORMATION	
Schedule of Operating Revenues	9
Schedule of Operating Expenses	10
Schedule of Nonoperating Revenues - Local	11
Schedule of Nonoperating Revenues - State and Federal	12
Net Eligible Cost Computations of General Operations	13-14
Schedule of Mileage Data	15
Schedule of Expenditures of Federal and State Awards	16-17

Principals
Dale J. Abraham, CPA
Michael T. Gaffney, CPA
Steven R. Kirinovic, CPA
Aaron M. Stevens, CPA
Eric J. Glashouwer, CPA

ABRAHAM & GAFFNEY, P.C.
Certified Public Accountants

3511 Coolidge Road
Suite 100
East Lansing, MI 48823
(517) 351-6836
FAX: (517) 351-6837

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, as of and for the years ended June 30, 2006 and 2005, as listed in the Table of Contents. These financial statements are the responsibility of the City's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 audits provide a reasonable basis for our opinion.

As discussed in Note A, the financial statements present only the Dial-A-Ride Transit Fund and do not purport to, and do not, present fairly the financial position of the City of Ionia, Michigan, as of June 30, 2006 and 2005, and the results of its operations, and cash flows of its proprietary fund types for the years then ended, in conformity with accounting principles generally accepted in the United States of America.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, as of June 30, 2006 and 2005, and the results of its operations and cash flows for the years 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 a report dated September 21, 2006, on our consideration of the City of Ionia's internal control over financial reporting and our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. 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 audits.

The Management's Discussion and Analysis on pages iii through ix is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 an opinion on the financial statements that collectively comprise the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, financial statements. The accompanying additional information listed in the Table of Contents under Other Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan. Such information, except for that portion marked "unaudited" on which we express no opinion, has been subjected to the auditing procedures applied in the audit of the Dial-A-Ride Transit Fund of the City of Ionia, Michigan, 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 DIAL-A-RIDE
MANAGEMENT'S DISCUSSION AND ANALYSIS

The intent of the management discussion and analysis is to provide highlights of the Agency'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

- Assets – The assets of the Dial-A-Ride did exceed its liabilities by $ 1,211,380 (net assets). Of this amount, $142,824 (unrestricted net assets) may be used to meet the Dial-A-Ride's ongoing obligations to citizens and creditors. The total net assets increased by $42,047. The State reconciles payments to transit authorities annually and adjusts payments to municipalities based on that increase or decrease. In past years that amount has not been credited to the receivable on the Balance Sheet.

- Unreserved Fund Balance: At the end of the current fiscal year, unreserved fund balance for Dial-A-Ride was $142,824 or 19.2% of total operating expenses. This is up from $131,180 or 17.2% of last year's operating expenses.

- Ridership: Demand response revenue (fare box) increased this year by $6,206, and contractual demand response service earned $7,493 more. The miles traveled, 142,581, were 719 miles less than the preceding year.

- Federal & State Funding Projects
  Capital Projects: The Ionia Dial-A-Ride is eligible for grants through the Michigan Department of Transportation and the U.S. Department of Transportation. During the fiscal year ending June 30, 2006, Dial-A-Ride secured funding for an upgrade to its communications system, and also the purchase of three (3) new vehicles..

  Job Access Project: Dial-A-Ride secured Federal and State grants for the Jobs Access and Reverse Commute program starting in 2001. Ionia Dial-A-Ride and Belding Dial-A-Ride work together to offer job related transportation services between the City of Belding and the City of Ionia. The grant award total for running this program for the fiscal year which ended June 30, 2006 was $59,756.

- Investment Income: Interest revenue increased 57.6 % to $8,205 this year.

OVERVIEW OF THE FINANCIAL STATEMENTS

The annual report includes this management discussion and analysis report, the independent auditor's report and the basic financial statement of the Dial-A-Ride, which include notes that explain in more detail some of the information in the financial statements.

As a municipal transportation authority, Ionia Area Dial-A-Ride engages in primarily enterprise operations in various separate and distinct activities. These activities include: 1) demand service for transporting commuters; 2) contracted tripper service for school routes in the Ionia Public School District; and, 3) inter-county service for state funded programs.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT'S DISCUSSION AND ANALYSIS

REQUIRED FINANCIAL STATEMENTS

The financial statements report information of the Dial-A-Ride (DAR) using accounting methods similar to those used by private sector companies. These statements offer short and long-term financial information about its activities. The Statement of Net Assets includes all of the DAR's assets and liabilities and provides information about the nature and amounts of investments in resources (assets) and the obligations to DAR creditors (liabilities). It also provides the basis for evaluating the capital structure of the DAR and assessing the liquidity and financial flexibility of the DAR.

All of the current year's revenues and expenses are accounted for in the Statement of Revenues, Expenses, and Changes in Net Assets. This statement measures the success of the DAR's operations over the past year and can be used to determine whether the DAR has successfully recovered all of its costs through its user fees and other charges, profitability and credit worthiness.

The final required financial statement is the Statement of Cash Flows. This statement reports cash receipts, cash payments and net changes in cash resulting from operations, investing, and financing activities and provides answers to such questions as where did cash come from, what was cash used for, and what was the change in the cash balance during the reporting period.

FINANCIAL ANALYSIS OF THE DAR

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

NET ASSETS

The DAR's Statement of Net Assets is presented in the following Tables. A comparative analysis of data is presented to the fiscal year of 2004-2005.

TABLE 1
Condensed Statement of Net Assets

	6/30/2005	6/30/2006
Current and Other Assets	$ 233,952	$ 240,922
Capital Assets	1,038,153	1,068,556
Total Assets	1,272,105	1,309,478
Current Liabilities	42,900	51,101
Other Liabilities	59,872	46,997
Total Liabilities	102,772	98,098
Invested in Capital Assets Net of Related debt	1,038,153	1,068,556
- Unrestricted	131,180	142,824
Total Net Assets	$ 1,169,333	$ 1,211,380

TABLE 2
CONDENSED STATEMENTS OF REVENUE, EXPENSES,
AND CHANGES IN NET ASSETS

	2004-2005	2005-2006
Operating Revenues	$ 110,362	$ 124,061
Non-operating Revenues	467,639	473,214
Total Revenues	578,001	597,275
Depreciation Expense	161,765	159,610
Other Operating Expense	599,020	585,631
Total Expenses	760,785	745,241
Income (Loss) Before Capital Contributions	(182,784)	(147,966)
Capital Contributions	123,788	190,013
Changes in Net Assets	(58,996)	42,047
Beginning Net Assets	1,260,264	1,169,333
Prior period adjustment	(31,935)	-
Ending Net Assets	$ 1,169,333	$ 1,211,380

While the Statement of Net Assets shows the change in financial position of net assets, the Statement of Revenues, Expenses and Changes in Net Assets shows that the operations actually had a loss before capital contributions. Depreciation expense of $159,610 is a non-cash expense, which represents the reduction in the value of the facility and buses. Due to the nature of the Dial-A-Ride's capital improvement plan, this cost is not considered in the budget process because of the capital grants available through State and Federal funding (see Table 3).

The DAR's operating revenues were more than last year. Operating Expenses were also less by $13,389 from the previous year.

BUDGETARY HIGHLIGHTS

The Dial-A-Ride is an enterprise fund of the City of Ionia and is therefore not required to adopt an annual budget. However, the City Council does adopt an annual Operating Budget and a five-year Capital Plan for the Dial-A-Ride following a public hearing. The Operating Budget includes proposed expenses and the means of financing them. The DAR's operating budget remains in effect and can be revised with City Council approval prior to the fiscal year end.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT'S DISCUSSION AND ANALYSIS

A FY 05-06 budget comparison and analysis is presented in TABLE 3.

TABLE 3
BUDGET vs. ACTUAL

	BUDGETED ORIGINAL	BUDGETED FINAL	ACTUAL	Variance Favorable (Unfavorable)
OPERATING REVENUE				
Sales and charges for services	$ 117,000	$ 119,000	$ 124,064	$(5,061)
OPERATING EXPENSES				
Salaries and wages	270,775	270,775	278,180	(7,405)
Fringe Benefits	120,000	120,000	113,405	6,595
Contractual service	277,594	298,604	114,196	184,408
Supplies	34,250	43,164	47,479	(4,315)
Utilities	13,700	15,000	17,417	(2,417)
Insurance	13,750	13,750	10,410	3,340
Transportation & training	1,500	1,500	725	775
Advertising	2,000	2,800	2,422	378
Other	2,250	2,250	1,397	853
Depreciation	4,000	4,000	159,610	(155,610)
TOTAL OPERATING EXPENSES	739,819	771,843	745,241	26,602
OPERATING LOSS	(622,819)	(652,843)	(621,180)	31,663
NONOPERATING REVENUES				
Taxes	62,000	62,000	69,026	(7,026)
Intergovernmental:				
Federal	239,041	268,193	278,097	9,904
State	288,378	289,250	292,638	3,388
Local	22,500	22,500	7,500	(15,000)
Interest earnings	2,500	2,500	8,205	5,705
Sale of Equipment	8,400	8,400	5,766	(2,634)
Other Revenues	-	-	1,995	1,995
TOTAL NONOPERATING REVENUES	622,819	652,843	663,227	10,384
NET INCOME (LOSS)	$ -0-	$ -0-	$ 42,047	$ 42,047

The Contractual services variance shows that capital improvement projects were completed and recorded as assets on the balance sheet instead of as an expense. The costs are budgeted and maintained on the Revenue and Expenditure report but in reality are capital items that ultimately are moved to the Balance Sheet. The variances on the State and Federal revenues are also related to the capital projects. The facility addition and the communication tower were continued from the prior year and finalized in FY 2006. The total capital project was shown on the budget, but the actual costs and corresponding revenues were less for this time period.

CAPITAL ASSETS

The acquisition of new buses and most other facility improvements are funded by Federal sources (80%) and State match from the Michigan Department of Transportation (20%). This allows for the DAR to maintain its fleet at an average life of 5 (five) years. This funding source also allows for the DAR to use all of its operating revenues on daily services and not tie up those incomes with debt payments for equipment or the facility. There were three (3) new bus's purchased during the FY 05-06 year. Also, the building expansion project that was started before June 30, 2003 and funded through Federal/State capital projects was finalized in FY 05-06. The difference in structures, vehicles, and equipment is reflective of recognizing plant asset disposals for obsolete equipment and depreciation expense.

TABLE 4
CAPITAL ASSETS

	6/30/2005	6/30/2006
Land	$ 25,000	$ 25,000
Buildings	1,054,353	1,084,616
Office Equipment	309,413	324,554
Vehicles	739,768	851,676
Sub-total	2,128,534	2,285,846
Less: Accumulated Depreciation	(1,090,381)	(1,217,290)
Net Property and Equipment	$ 1,038,153	$ 1,068,556

The DAR's five-year Capital Plan includes bus acquisition and communications upgrades. A Federal grant has been approved to continue upgrades to the communication system that DAR uses within the county. This grant will be disbursed over a 4 year period. The Federal earmark for this project is $493,240.

DEBT ADMINISTRATION

The DAR carries no long-term debt as any improvements to the fleet or facilities have all been secured by State or Federal grant projects. This allows the DAR to avoid any debt other than current liabilities in the normal operation of the system. The DAR does levy .75 mills in the City to generate property tax revenue which is used in the operation of the system. The taxes collected are not obligated to any bond payments.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

In setting the fiscal year budget for 2006-2007, many factors are considered by the DAR and the City Council. Many of the funds that subsidize the transportation operation are appropriated by both State and Federal legislation. These funds have remained consistent, however, fluctuations in future funding levels may be contributed to economic conditions at local, State, and the Federal levels. During the FY 06-07 Federal and State funds have been earmarked for both the purchase of 3 replacement vehicles and communications upgrades. Total grant will be $290, 511.

CITY OF IONIA DIAL-A-RIDE
MANAGEMENT'S DISCUSSION AND ANALYSIS

Approximately 18-20% of the operating revenue is collected through the fare box. Service standards are evaluated constantly to make sure they match the commuters' needs. Fares have been increased or routes discontinued when it is necessary or when the effectiveness is not being maximized.

TABLE 5
FARES HISTORY

	Regular	Student	Senior/Disabled
07/01/97 - 06/30/03	$1.50	$ 1.00	$ 0.75
07/01/03 - 09/30/05	2.00	1.25	1.00
10/01/06 - Current	2.50	1.75	1.25

Based on high fuel costs, there will likely be some fluctuations in the level of services provided and the associated fares for these services.

CONTACT INFORMATION

This financial report is designed to provide our customers and creditors with a general overview of the DAR's finances and to demonstrate the DAR's accountability for the funds it receives. Anyone having questions regarding this report or desiring additional information may contact the City Finance Director or Director of Public Transportation, Ionia Area Dial-A-Ride, P.O. Box 496, Ionia, MI 48846, or phone (616) 527-5794 or by email at dirdialaride@city.ionia.mi.us.

FINANCIAL STATEMENTS

City of Ionia
DIAL-A-RIDE TRANSIT FUND

STATEMENTS OF NET ASSETS

June 30, 2006 and 2005

	2006	2005
ASSETS		
Current assets		
Cash and cash equivalents	$ 184,040	$ 198,539
Accounts receivable	-	6,233
Taxes receivable	5,096	5,448
Due from other governmental units	50,948	22,304
Prepaid expenses	838	1,428
Total current assets	240,922	233,952
Noncurrent assets		
Capital assets not being depreciated	25,000	25,000
Capital assets, net of accumulated depreciation	1,043,556	1,013,153
Total noncurrent assets	1,068,556	1,038,153
TOTAL ASSETS	1,309,478	1,272,105
LIABILITIES		
Current liabilities		
Accounts payable	19,568	14,334
Accrued liabilities	8,212	6,045
Due to other funds	693	-
Deferred revenue	6,971	7,323
Current portion of accrued sick and vacation pay	15,657	15,198
Total current liabilities	51,101	42,900
Noncurrent liabilities		
Accrued sick and vacation pay	46,973	45,596
Advance from State	24	14,276
Total noncurrent liabilities	46,997	59,872
TOTAL LIABILITIES	98,098	102,772
NET ASSETS		
Invested in capital, net of related debt	1,068,556	1,038,153
Unrestricted	142,824	131,180
TOTAL NET ASSETS	$ 1,211,380	$ 1,169,333

See accompanying notes to financial statements.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

STATEMENTS OF REVENUES, EXPENSES, AND CHANGES IN FUND NET ASSETS

Years Ended June 30, 2006 and 2005

	2006	2005
OPERATING REVENUES		
Sales and charges for services	$ 124,061	$ 110,362
OPERATING EXPENSES		
Administrative	88,955	85,721
Operations	438,902	434,756
Maintenance	43,783	40,778
Depreciation	159,610	161,765
State grants	13,991	37,765
TOTAL OPERATING EXPENSES	745,241	760,785
OPERATING LOSS	(621,180)	(650,423)
NONOPERATING REVENUES		
Taxes	69,026	67,356
Intergovernmental		
Federal sources	278,097	212,667
State sources	292,638	282,697
Local sources	7,500	22,500
Interest earnings	8,205	5,207
Gain on sale of equipment	5,766	-
Other revenues	1,995	1,000
TOTAL NONOPERATING REVENUES	663,227	591,427
CHANGE IN NET ASSETS	42,047	(58,996)
Net assets, beginning of year	1,169,333	1,260,264
Prior period adjustment	-	(31,935)
Net assets, end of year	$ 1,211,380	$ 1,169,333

See accompanying notes to financial statements.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

STATEMENTS OF CASH FLOWS

Years Ended June 30, 2006 and 2005

	2006	2005
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from customers and users	$ 130,635	$ 103,999
Payments to suppliers	(299,460)	(337,481)
Payments to employees	(276,344)	(270,130)
NET CASH USED BY OPERATING ACTIVITIES	(445,169)	(503,612)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
Taxes	69,378	67,610
Intergovernmental sources	345,326	394,777
Contributions	1,995	1,000
NET CASH PROVIDED BY NONCAPITAL ACTIVITIES	416,699	463,387
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Capital purchases	(190,013)	(106,076)
Proceeds from sale of equipment	5,766	-
Capital grants	190,013	123,788
NET CASH PROVIDED BY CAPITAL AND RELATED FINANCING ACTIVITIES	5,766	17,712
CASH FLOWS FROM INVESTING ACTIVITIES		
Interest revenue	8,205	5,207
NET DECREASE IN CASH AND CASH EQUIVALENTS DURING YEAR	(14,499)	(17,306)
Cash and cash equivalents, beginning of year	198,539	215,845
Cash and cash equivalents, end of year	$ 184,040	$ 198,539
RECONCILIATION OF OPERATING LOSS TO NET CASH USED BY OPERATING ACTIVITIES:		
Operating loss	$ (621,180)	$ (650,423)
Adjustments to reconcile operating loss to net cash used by operating activities		
Depreciation	159,610	161,765
(Increase) decrease in accounts receivable	6,233	(6,109)
(Increase) decrease in prepaid expenses	590	(972)
Increase (decrease) in accounts payable	5,234	(6,541)
Increase (decrease) in accrued liabilities	4,003	(1,078)
Increase in due to other funds	693	-
(Decrease) in deferred revenue	(352)	(254)
NET CASH USED BY OPERATING ACTIVITIES	$ (445,169)	$ (503,612)

See accompanying notes to financial statements.

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

The City of Ionia Dial-A-Ride (DAR) was established to provide public transportation services to residents of the City of Ionia.

The DAR operation is funded primarily with Federal and State operating and capital grants along with user charges.

1. Reporting Entity

The accompanying financial statements are exclusive presentations of the financial condition and results of operations of the Dial-A-Ride Transit Fund. The DAR is considered a fund of the City of Ionia. As a result, industry standards require the City to include the financial activities of the DAR in the City's Annual Financial Report. The Annual Financial Report of the City of Ionia is available for public inspection at the Ionia City Hall.

2. Basis of Presentation

The accounts of the DAR are organized on the basis of a fund which is considered a separate accounting entity. The operation of the fund is accounted for with a separate set of self-balancing accounts that comprise its assets, liabilities, fund equity, revenues, and expenses. DAR resources are allocated to and accounted for in the individual fund based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The fund in the financial statements in this report is described as follows:

PROPRIETARY FUND

Enterprise Fund - This fund is used to account for operations that are financed and operated in a manner similar to private business enterprises - where the intent of the governing body is that the costs (expenses, including depreciation) of providing goods or services to the general public on a continuing basis be financed or recovered primarily through user charges.

The DAR, as a fund of the City of Ionia, applies all GASB pronouncements as well as Financial Accounting Standards Board (FASB) statements and interpretations, Accounting Principles Board (APB) Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements. The DAR, as a fund of the City of Ionia, has elected not to follow FASB pronouncements issued after November 30, 1989 to its business-type activities and enterprise fund.

3. Measurement Focus

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. The proprietary fund is accounted for on a flow of economic resources measurement focus. With this measurement focus, all assets and all liabilities associated with the operation of these funds are included on the Statement of Net Assets. Fund equity (i.e., total net assets) is segregated into invested in capital (net of related debt) and unrestricted components. Proprietary fund type operating statements present increases (i.e., revenues) and decreases (i.e., expenses) in net total assets.

4. Basis of Accounting

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

The proprietary funds are accounted for using the accrual basis of accounting. The revenues are recognized when they are earned, and the expenses are recognized when they are incurred, regardless of the timing of related cash flows.

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

5. Budgets and Budgetary Accounting

The DAR, as a fund of the City of Ionia, employs the same budgeting procedures as the City of Ionia, which is described in Note A within the City's Annual Financial Report.

6. Cash and Cash Equivalents

Cash and cash equivalents consist of the DAR portion of the City of Ionia's pooled cash accounts. These pooled accounts consist of various checking, savings, certificates of deposit, and investment trust funds.

7. Capital Assets and Long-Term Liabilities

Capital assets, which include buildings, vehicles, and equipment, are capitalized at total acquisition cost, provided such cost exceeds $1,000 and the expected useful life of the asset is more than one year. Depreciation is recorded on all depreciable capital assets on a straight-line basis over the estimated useful lives of the assets.

The estimated useful lives are:

Buildings	30 years
Vehicles	5 years
Furniture and Equipment	3 - 7 years

Long-term liabilities are recognized in the basic financial statements 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.

8. Accrued Vacation and Sick Leave

DAR employees are granted vacation and sick leave in varying amounts. In the event of termination, an employee is paid for certain portions of unused accumulated vacation and sick time. This amount has been recorded as a current and long-term liability in the Proprietary Fund.

9. Comparative Data

Comparative data for the prior year has been presented in the accompanying financial statements in order to provide an understanding of changes in the financial position, operations, and cash flows. Certain amounts presented in the prior year have been reclassified in order to be consistent with the current year's presentation.

NOTE B: CASH AND CASH EQUIVALENTS

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

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

NOTE B: CASH AND CASH EQUIVALENTS - CONTINUED

2. 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 or the United States, but only if the bank, savings and loan association, savings bank, or credit union is eligible to be a depository of surplus funds belonging to the State under section 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, being Section 21.145 and 21.146 of Michigan Compiled Laws.

3. 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.

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

5. Bankers' acceptances of United States banks.

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

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of $100,000 for deposits in an insured 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 for 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

There is a custodial credit risk as it relates to deposits. In the case of deposits, this is the risk that in the event of a bank failure, the DAR's deposits may not be returned to it. A portion of the cash and cash equivalents of the DAR are covered by Federal deposit insurance along with other deposits of the City of Ionia, limited to $100,000 in total deposits for each bank customer. Since the City maintains these funds in pooled accounts it is not practical to determine what portion of the DAR funds are insured.

The DAR, as a fund of the City of Ionia, is subject to the investment policy of the City as described in the note captioned "Cash, Cash Equivalents, and Investments" within the City's Annual Financial Report.

NOTE C: INTERFUND RECEIVABLES AND PAYABLES

The following schedule details amounts due to the City of Ionia General Fund from the DAR at June 30, 2006:

Due to General Fund from:	
Dial-A-Ride Transit Fund	$ 693

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.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NOTES TO FINANCIAL STATEMENTS

June 30, 2006

NOTE D: CAPITAL ASSETS

Proprietary Fund capital asset activity for the year ended June 30, 2006, was as follows:

	Balance July 1, 2005	Additions	Deletions	Balance June 30, 2006
Business-type activities:				
Capital assets not being depreciated				
Land	$ 25,000	$ -	$ -	$ 25,000
Capital assets being depreciated				
Buildings	1,054,353	30,263	-	1,084,616
Vehicles	739,768	144,609	(32,701)	851,676
Furniture and equipment	309,413	15,141	-	324,554
Total capital assets being depreciated	2,103,534	190,013	(32,701)	2,260,846
Less accumulated depreciation for:				
Buildings	(330,132)	(35,305)	-	(365,437)
Vehicles	(588,629)	(99,331)	32,701	(655,259)
Furniture and equipment	(171,620)	(24,974)	-	(196,594)
Total accumulated depreciation	(1,090,381)	(159,610)	32,701	(1,217,290)
Net capital assets being depreciated	1,013,153	30,403	-0-	1,043,556
Capital assets, net	$ 1,038,153	$ 30,403	$ -0-	$ 1,068,556

A summary of Proprietary Fund capital assets by funding source at June 30, 2006, follows:

	Purchased with DAR Local Operating Funds	Purchased with Funds Contributed by City of Ionia	Purchased with Capital Grants	Total
Land	$ -	$ 25,000	$ -	$ 25,000
Buildings	19,976	-	1,064,640	1,084,616
Vehicles	7,332	-	844,344	851,676
Furniture and equipment	12,800	-	311,754	324,554
Total	40,108	25,000	2,220,738	2,285,846
Less: accumulated depreciation	(31,572)	-	(1,185,698)	(1,217,290)
Capital assets, net	$ 8,516	$ 25,000	$ 1,035,040	$ 1,068,556

When Federal or State funded assets are withdrawn from public transportation service, the disposition of the assets is to be approved by the Michigan Department of Transportation (MDOT). During the year, the DAR disposed of one (1) vehicle that was Federally or State funded with a historical cost of $32,701, which was fully depreciated. Depreciation expense in the amount of $159,610 was reported for the year ended June 30, 2006.

NOTE E: RETIREMENT PLAN

All full-time employees of the DAR are eligible and participate in the City of Ionia retirement plan. The required disclosures are included in the note captioned "Retirement Plan" within the City's Annual Financial Report.

NOTE F: RISK MANAGEMENT

The DAR, as a fund of the City of Ionia, is protected from losses as described in the note captioned "Risk Management" within the City's Annual Financial Report.

OTHER SUPPLEMENTARY INFORMATION

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF OPERATING REVENUES

Year Ended June 30, 2006

	7/1/05 to 9/30/05	10/1/05 to 6/30/06	Total
Operating revenues			
Demand response (farebox)	$ 14,932	$ 51,548	$ 66,480
School services (farebox)	6,472	51,109	57,581
	$ 21,404	$ 102,657	$ 124,061

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF OPERATING EXPENSES

Year Ended June 30, 2006

	Operations	Maintenance	Administrative	Total System
Labor				
Operator's salaries and wages	$ 213,638	$ -	$ -	$ 213,638
Other salaries and wages	-	11,012	16,411	27,423
Dispatchers' salaries and wages	37,119	-	-	37,119
Payroll taxes and fringe benefits	102,226	4,489	6,690	113,405
Professional services	31,681	24,924	43,600	100,205
Materials and supplies consumed				
Operation and maintenance	41,625	1,985	-	43,610
Office supplies	1,176	1,373	1,320	3,869
Utilities	-	-	17,417	17,417
Insurance	10,410	-	-	10,410
Miscellaneous expenses				
Advertising and promotion	-	-	2,422	2,422
Other miscellaneous	302	-	1,095	1,397
COA grant	-	-	13,991	13,991
Training	725	-	-	725
Depreciation	-	-	159,610	159,610
TOTAL OPERATING EXPENSES	$ 438,902	$ 43,783	$ 262,556	$ 745,241

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF NONOPERATING REVENUES - LOCAL

Year Ended June 30, 2006

	7/1/05 to 9/30/05	10/1/05 to 6/30/06	Total
Local operating grant - tax levy	$ 58,879	$ 10,147	$ 69,026
Local participation	6,525	975	7,500
Interest income	1,755	6,450	8,205
Gain on sale of equipment	-	5,766	5,766
Contribution	-	1,995	1,995
TOTAL NONOPERATING REVENUES - LOCAL	$ 67,159	$ 25,333	$ 92,492

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF NONOPERATING REVENUES - STATE AND FEDERAL

Year Ended June 30, 2006

State of Michigan Operating Grants	
Local Bus Operating Assistance (Act 51)	$ 213,791
Prior year reconciliations	1,787
Ionia County Commission on Aging	18,712
Job Access - Service expansion	29,878
Total State of Michigan Operating Grants	264,168
State of Michigan Capital Grants	
Section 5309	28,470
Federal Operating Grants	
Prior year reconciliations	6,421
Rural Transit Authority Program	541
Job Access - Service expansion	29,878
U.S. Department of Transportation - Section 5311	79,714
Total Federal Operating Grants	116,554
Federal Capital Grants	
U.S. Department of Transportation - Section 5309	161,543
TOTAL NONOPERATING REVENUES - STATE AND FEDERAL	$ 570,735

City of Ionia
DIAL-A-RIDE TRANSIT FUND

NET ELIGIBLE COST COMPUTATIONS OF GENERAL OPERATIONS

Year Ended June 30, 2006

	Federal Section 5311		State Operating Assistance	
	7/1/05 to 9/30/05	10/1/05 to 6/30/06	7/1/05 to 9/30/05	10/1/05 to 6/30/06
Expenses				
Labor	$ 55,968	$ 206,893	$ 55,968	$ 206,893
Fringe benefits	28,942	84,463	28,942	84,463
Professional services	11,626	33,626	11,626	33,626
Audit costs	-	2,200	-	2,200
Materials and supplies	7,434	48,361	7,434	48,361
Utilities	2,887	14,530	2,887	14,530
Insurance	-	10,410	-	10,410
Travel and meetings	329	396	329	396
Miscellaneous	1,761	2,058	1,761	2,058
Expense transfers				
COA grants	-	13,991	-	13,991
Depreciation	35,891	123,719	35,891	123,719
Total expenses	144,838	540,647	144,838	540,647
Less ineligible expenses[1]				
Depreciation	(35,804)	(123,458)	(35,804)	(123,458)
Specialized Service Operating Assistance Agreements -				
2002-0050/Z10	(4,549)	-	(4,549)	-
2002-0050/Z15	-	(9,442)	-	(9,442)
Association dues	-	(51)	-	(51)
Rural Transit Assistance Program	-	(541)	-	(541)
Total ineligible expenses	(40,353)	(133,492)	(40,353)	(133,492)
NET EXPENSES	$ 104,485	$ 407,155	104,485	407,155
Less: Section 5311 reimbursements			(18,641)	(61,073)
Net deficit eligible for State operating assistance reimbursement			$ 85,844	$ 346,082
Maximum Section 5311 reimbursement				
(12.40%)	$ 12,956			
(15.00%)		$ 61,073		
Maximum State operating assistance				
(39.9234%)			$ 34,272	
(39.2546%)				$ 135,853

[1] The City had expended more than $500,000 in federal funds and was therefore subject to a single audit for the fiscal year ended June 30, 2006. As a result, the related audit costs were not deducted as an ineligible expense.

Job Access	
7/1/05 to 9/30/05	10/1/05 to 6/30/06
$ 4,306	$ 11,013
-	-
17,133	21,829
-	-
2,265	3,210
-	-
-	-
-	-
-	-
-	-
-	-
23,704	36,052
-	-
-	-
-	-
-	-
-	-
-0-	-0-
$ 23,704	$ 36,052

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF MILEAGE DATA (UNAUDITED)

Year Ended June 30, 2006

	Public Transportation Mileage[1]
Demand response	
First quarter	30,509
Second quarter	34,527
Third quarter	42,029
Fourth quarter	35,516
Total operation	142,581

[1] The methodology used for compiling mileage has been reviewed and found to be an adequate and reliable method for recording vehicle mileage.

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS

Year Ended June 30, 2006

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program Award Amount	Expenses
FEDERAL				
U.S. Department of Transportation				
Passed through MDOT				
Federal Transit - Capital Investment Grants	20.500			
Capital Grant - Section 5309		2002-0050/Z7	$ 299,038	$ 37,041
Capital Grant - Section 5309		2002-0050/Z3	237,568	8,363
Capital Grant - Section 5309		2002-0050/Z14	151,840	116,139
			688,446	161,543
Operating Assistance - Section 5311	20.509			
FY 2005		2002-0050/Z11	68,248	18,641
FY 2006		2002-0050/Z16	85,035	61,073
Prior year reconciliations		N/A	N/A	6,421
Rural Transit Assistance Program		N/A	541	541
			153,824	86,676
Jobs Access and Reverse Commute Grant - Section 3037	20.516			
FY 05-06		2002-0050/Z6	81,570	29,878
TOTAL FEDERAL AWARDS			923,840	278,097

City of Ionia
DIAL-A-RIDE TRANSIT FUND

SCHEDULE OF EXPENDITURES OF FEDERAL AND STATE AWARDS - CONTINUED

Year Ended June 30, 2006

Federal and State Grantor/Pass-Through Grantor/Program Title	Federal CFDA Number	Pass-Through Grantor's Number	Restated Program Award Amount	Expenses
STATE				
Michigan Department of Transportation				
Operating Assistance - Act 51	N/A			
FY 04-05		N/A	$ 50,883	$ 50,883
FY 05-06		N/A	162,908	162,908
Prior year reconciliations		N/A	N/A	1,787
			213,791	215,578
Specialized Service Operating Assistance	N/A			
FY 04-05		2002-0050/Z10	18,193	4,549
FY 05-06		2002-0050/Z15	18,884	14,163
			37,077	18,712
Jobs Access and Reverse Commute Grant - Section 3037	N/A			
FY 05-06		2002-0050/Z6	81,570	29,878
Capital Grant - Section 5309	N/A			
FY 05-06		2002-0050/Z14	151,840	28,470
TOTAL STATE AWARDS			484,278	292,638
TOTAL FEDERAL AND STATE AWARDS			$ 1,408,118	$ 570,735