CITY OF MERRILL, IOWA

INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2006

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CITY OF MERRILL, IOWA

OFFICIALS

Name	Title	Term Expires
	(After January 2006)	
George R. Barkley	Mayor	January, 2008
Ryan Gillaspie	Mayor Pro Tem	January, 2010
Joe Delutri	Council Member	January, 2008
Randy Luscher	Council Member	January, 2008
Jerry Wilmes	Council Member	January, 2010
L. V. (Al) Fagan	Council Member	January, 2008
	(Before January 2006)	
Terry Gries	Mayor	January, 2006
Myron Majeres	Mayor Pro Tem	January, 2006
Joe Delutri	Council Member	January, 2008
Randy Luscher	Council Member	January, 2008
Bruce Rolling	Council Member	January, 2006
George R. Barkley	Council Member	January, 2008
Margaret Marienau	Clerk/Treasurer	Appointed Annually
Patrick Murphy	Attorney	Appointed Annually

HENJES, CONNER &
WILLIAMS, P.C.
CERTIFIED PUBLIC ACCOUNTANTS

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P.O. BOX 1528
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INDEPENDENT AUDITORS' REPORT

To the Honorable Mayor and
Members of the City Council
City of Merrill, Iowa

We have audited the accompanying financial statements, listed as exhibits in the table of contents, of the CITY OF MERRILL, IOWA, as of and for the year ended June 30, 2006. These financial statements are the responsibility of City of Merrill's management. Our responsibility is to express an opinion on these financial statements based on our audit.

Except as discussed in the following paragraph, 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 our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total cash basis net assets at July 1, 2005.

In our opinion, except for the effect of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total cash basis net assets at July 1, 2005, as discussed in the preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, and each fund of the City of Merrill, Iowa, as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated September 13, 2006, on our consideration of the City of Merrill'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 internal control over financial reporting or 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.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 9 and 19 through 21 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. 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. 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 taken as a whole. The other supplementary information, included in Schedules 1 through 4, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our 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.

Herjes, Conner + Williams, P.C.
Certified Public Accountants

Sioux City, Iowa
September 13, 2006

CITY OF MERRILL
321 4TH ST.
PO BOX 195
MERRILL, IOWA 51038

Mayor
Members of the Board of Trustees
Citizens of Merrill, Iowa
City of Merrill

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Merrill provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Statement of Activities and Net Assets provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

Notes to financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides more detailed information about the governmental and proprietary funds, as well as the City's indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Statement of Activities and Net Assets-Cash Basis

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

* Governmental Activities include public safety, culture and recreation, community and economic development, public works and general government. Property tax and state funds finance most of these activities.

* Business Type Activities include the water services and the wastewater treatment and sanitary sewer system. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: the General Fund and the Special Revenue Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

   The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities.

   The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The two schedules which follow present the changes in the net assets of governmental activities and of business type activities.

Changes in Cash Basis Net Assets of Governmental Activities

Receipts and Transfers:	
Program Receipts:	
Charges for Service	$ 71,869
Operating Grants, Contributions and Restricted Interest	-
Capital Grants, Contributions and Restricted Interest	-
General Receipts:	
Property Tax	147,292
Local Option Sales Tax	61,938
Road Use Tax	63,129
Grants and Contributions Not Restricted to Specific Purposes	948
Unrestricted Investment Earnings	2,499
Other General Receipts	84,400
Sale of Assets	4,826
Total Receipts	$ 436,901

Disbursements:	
Public Safety	$ 130,238
Cultural and Recreational	55,297
Community and Economic Development	4,803
Public Works	108,632
General Government	65,082
Total Disbursements	$ 364,052
Increase in Cash Basis Net Assets	$ 72,849
Cash Basis Net Assets Beginning of Year	178,836
Cash Basis Net Assets End of Year	$ 251,685

Changes in Cash Basis Net Assets of Business Type Activities

Receipts:	
Program Receipts:	
Charges for Service:	
Water	$ 58,151
Sewer	25,229
General Receipts:	
Unrestricted Interest on Investments	2,172
Total Receipts and Transfers	$ 85,552
Disbursements:	
Water	$ 94,391
Sewer	22,875
Total Disbursements	$ 117,266
(Decrease) in Cash Balance	$(31,714)
Cash Basis Net Assets Beginning of Year	158,201
Cash Basis Net Assets End of Year	$ 126,487

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 30, 2006, and resulted in an increase in operating revenue related to funds received for park project, increase in fine income and receipts from surplus property sold. The amendment also resulted in an increase in operating disbursements related to purchase of police car and expenses incurred for water project. The City had sufficient cash balances to absorb these additional costs.

RECENT ACCOMPLISMENTS

Recent accomplishments in the City of Merrill have included steps to install booster pumps to increase water pressure and a new back-up well. A very old water line was replaced on Roosevelt Street in the south part of town. Blacktopping was added at the City Park to make it handicap accessible, with funding from County Local Option Tax funds. A 20-year lease was negotiated with a private developer for approximately 20 acres of City land. The developer plans to install a golf course and a housing development for about 177 lots. A new concession stand is being built at the ball park by donations and volunteer help.

The Library received County Local Option Tax funds to renovate the windows.

A group formed an Economic Development Committee, meeting monthly. This group has placed a "Merrill" sign on the north entrance to the City and has plans to add one to the south entrance. A local garden club was formed and now sponsors a farmer's market. The club has also planted flowers in the downtown area.

FUTURE DEVELOPMENT PLANS

The City is working with a private developer who has plans to build a golf course with approximately 177 lots surrounding the golf course.

Plans for an ethanol plant directly north of town are under way. The City is working with the County to benefit this project.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Merrill's elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates, and fees charged for various City activities. Some of the factors considered were the economy, fuel and energy prices, local population growth and the residential housing market, the condition of equipment and City infrastructure and cutbacks in state funding sources.

The City maintained its property tax levy in the fiscal year 2007 budget, deciding not to increase the levy, even though operating costs are expected to increase.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Margaret Marienau, City Clerk, 321 4th Street, Merrill, Iowa 51038.

FINANCIAL STATEMENTS

CITY OF MERRILL, IOWA

STATEMENT OF ACTIVITES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

		Program Receipts	
	Disbursements	Charges for Services	Operating Grants, Contributions, and Restricted Interest
FUNCTIONS/PROGRAMS			
Governmental Activities:			
Public Safety	$ 130,238	$ 25,274	
Culture and Recreation	55,297		
Community and Economic Development	4,803		
Public Works	108,632	46,595	
General Government	65,082		
Total Governmental Activities	$ 364,052	$ 71,869	-
Business Type Activities:			
Water	$ 94,391	$ 58,151	
Sewer	22,875	25,229	
Total Business Type Activities	$ 117,266	$ 83,380	-
Total	$ 481,318	$ 155,249	-
GENERAL RECEIPTS			
Property Tax Levied For: General Purposes			
Local Option Sales Tax			
Road Use Tax			
Grants and Contributions Not Restricted to Specific Purpose			
Unrestricted Interest on Investments			
Fire Contracts			
Rent			
Miscellaneous			
Sale of Assets			
Total General Receipts and Transfers			
Change in Cash Basis Net Assets			
Cash Basis Net Assets Beginning of Year			
Cash Basis Net Assets End of Year			
CASH BASIS NET ASSETS			
Unrestricted			
Total Cash Basis Net Assets			

Capital Grants, Contributions and Restricted Interest	Net (Disbursements) Receipts and Changes in Cash Basis Net Assets: Governmental Activities	Business Type Activities	Total
	$(104,964)		$(104,964)
	(55,297)		(55,297)
	(4,803)		(4,803)
	(62,037)		(62,037)
	(65,082)		(65,082)
-	$(292,183)	-	$(292,183)
		$(36,240)	$(36,240)
		2,354	2,354
-	-	$(33,886)	$(33,886)
-	$(292,183)	$(33,886)	$(326,069)
	$ 147,292		$ 147,292
	75,938		75,938
	63,129		63,129
	948		948
	2,499	$ 2,172	4,671
	25,536		25,536
	11,386		11,386
	33,478		33,478
	4,826		4,826
-	$ 365,032	$ 2,172	$ 367,204
-	$ 72,849	$(31,714)	$ 41,135
-	178,836	158,201	337,037
-	$ 251,685	$ 126,487	$ 378,172
	$ 251,685	$ 126,487	$ 378,172
	$ 251,685	$ 126,487	$ 378,172

See Accompanying Notes to Financial Statements

CITY OF MERRILL, IOWA

EXHIBIT B

COMBINED STATEMENT OF CASH TRANSACTIONS

ALL FUNDS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2006

	Governmental Fund Types		Proprietary Fund Type	
	General	Special Revenue	Enterprise	Total
RECEIPTS				
Property Tax	$ 147,292			$ 147,292
Other City Tax	1,568	$ 61,938		63,506
Licenses and Permits	1,185			1,185
Use of Money and Property	13,885		$ 2,172	16,057
Intergovernmental	31,283	77,129		108,412
Charges for Service	71,869		83,380	155,249
Miscellaneous	30,752			30,752
Total Receipts	$ 297,834	$ 139,067	$ 85,552	$ 522,453
DISBURSEMENTS				
Public Safety	$ 130,238			$ 130,238
Culture and Recreation	41,297	$ 14,000		55,297
Community and Economic Development	4,803			4,803
Public Works	67,701	40,931		108,632
General Government	65,082			65,082
Business Type Activities			$ 117,266	117,266
Total Disbursements	$ 309,121	$ 54,931	$ 117,266	$ 481,318
Excess (Deficiency) of Receipts Over (Under) Disbursements	$(11,287)	$ 84,136	$(31,714)	$ 41,135
OTHER FINANCING SOURCES				
Operating Transfers	30,924	(30,924)		-
Net	$ 19,637	$ 53,212	$(31,714)	$ 41,135
Cash Balances Beginning of Year	29,143	149,693	158,201	337,037
Cash Balances End of Year	$ 48,780	$ 202,905	$ 126,487	$ 378,172
CASH BASIS FUND BALANCES				
Unreserved:				
General Fund	$ 48,780			$ 48,780
Special Revenue Fund		$ 202,905		202,905
Enterprise Fund			$ 126,487	126,487
Total Cash Basis Fund Balances	$ 48,780	$ 202,905	$ 126,487	$ 378,172

See Accompanying Notes to Financial Statements

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Merrill is a political subdivision of the State of Iowa located in Plymouth County. It was first incorporated in 1877 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture, recreation, public improvements and general administrative services.

A. Reporting Entity - For financial reporting purposes, the City of Merrill has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the City. The City of Merrill has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The City also participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Plymouth County Emergency Management Commission and Plymouth County Area Solid Waste Agency.

B. Basis of Presentation

Government-Wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the non-fiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

B. Basis of Presentation (Continued)

The Statement of Activities and Net Assets presents the City's non-fiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified. At June 30, 2006, the City had no unrestricted net assets.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - The financial statements for governmental funds and proprietary funds are provided on a combined statement. Individual governmental funds and individual enterprise funds are reported as separate columns in the fund financial statements.

The City reports the following governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.)

B. Basis of Presentation (Continued)

The Road Use Tax Fund is a special revenue fund used to account for road construction and maintenance.

The City reports the following proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and Basis of Accounting - The City of Merrill maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting - The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

Note 2 - DEPOSITS

The City's deposits in banks at June 30, 2006, were entirely covered by Federal depository insurance or by the State Sinking Fund, in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 3 - LEASES PAYABLE

The City has entered into capital lease agreements for the purchase of City vehicles. Details of the City's indebtedness are as follows:

Year Ending June 30,	Principal	Interest	Total
2007	$ 23,492	$ 7,369	$ 30,861
2008	24,764	6,097	30,861
2009	20,123	4,757	24,880
2010	21,178	3,702	24,880
2011	22,289	2,591	24,880
2012 - 2015	26,533	3,649	30,182
Total	$ 138,379	$ 28,165	$ 166,544

Note 4 - JAIL AGREEMENT

The City has entered into an agreement, dated February 26, 2003, with Plymouth County. Per the agreement, the City of Merrill is to contribute funds for the payment of the Plymouth County Law Enforcement Center. The funding obligation of the City of Merrill is as follows:

Years Ending June 30,	
2007	$ 7,007
2008	7,013
2009	7,038
2010	7,078
2011	7,035
2012 and Thereafter	35,101
Total	$ 70,272

Note 5 - PENSION AND RETIREMENT BENEFITS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P. O. Box 9117, Des Moines, Iowa 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.16% and 9.23%, respectively. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2006, was $6,339 equal to the required contribution for the year.

Note 6 - COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave termination payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Note 6 - COMPENSATED ABSENCES (Cont.)

Type of Benefit	Amount
Vacation	-
Sick Leave	$ 1,758
	$ 1,758

This liability has been computed based on rates of pay in effect at June 30, 2006.

Note 7 - ANTICIPATORY WARRANTS

During the year ended June 30, 2006, the City had no anticipatory warrants.

Note 8 - RISK MANAGEMENT

The City of Merrill is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage.

Note 9 - SUBSEQUENT EVENT

In July, 2006, the City entered into a Loan and Disbursement Agreement with the Iowa Finance Authority, Des Moines, Iowa. The Agreement authorizes the execution of a $300,000 Water Revenue Bond Series 2006, for the purpose of constructing improvements and extensions to the municipal waterworks system of the City.

The bonds are payable over the next twenty years from net revenues of the utility, which will be collected in a sinking fund and applied to the payment of 3% interest on the Series 2006 Bonds on each June 1 and December 1, and principal on each June 1.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF MERRILL, IOWA

BUDGETARY COMPARISON SCHEDULE OF CASH TRANSACTIONS - BUDGET TO ACTUAL - ALL FUNDS

YEAR ENDED JUNE 30, 2006

	Governmental Funds Actual	Proprietary Funds Actual	Total
RECEIPTS			
Property Tax	$ 147,292		$ 147,292
Other City Tax	63,506		63,506
Licenses and Permits	1,185		1,185
Use of Money and Property	13,885	$ 2,172	16,057
Intergovernmental	108,412		108,412
Charges for Service	71,869	83,380	155,249
Miscellaneous	30,752		30,752
Total Receipts	$ 436,901	$ 85,552	$ 522,453
DISBURSEMENTS			
Public Safety	$ 130,238		$ 130,238
Culture and Recreation	55,297		55,297
Community and Economic Development	4,803		4,803
Public Works	108,632		108,632
General Government	65,082		65,082
Business Type Activities		$ 117,266	117,266
Total Disbursements	$ 364,052	$ 117,266	$ 481,318
Excess of Receipts Over (Under) Disbursements	$ 72,849	$(31,714)	$ 41,135
Balances Beginning of Year	178,836	158,201	337,037
Balances End of Year	$ 251,685	$ 126,487	$ 378,172

Budgeted Amounts		Final to Total
Original	Final	Variance
$ 144,960	$ 144,960	$ 2,332
63,208	63,208	298
650	650	535
12,600	12,600	3,457
99,069	113,069	(4,657)
151,500	151,500	3,749
13,595	28,395	2,357
$ 485,582	$ 514,382	$ 8,071
$ 127,186	$ 128,356	$ 1,882
66,525	66,525	(11,228)
5,000	5,000	(197)
131,345	131,345	(22,713)
70,828	70,828	(5,746)
80,900	110,540	6,726
$ 481,784	$ 512,594	$(31,276)
$ 3,798	$ 1,788	$ 39,347
232,277	232,277	104,760
$ 236,075	$ 234,065	$ 144,107

See Accompanying Independent Auditors' Report

THE CITY OF MERRILL, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING

JUNE 30, 2006

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds, the Permanent Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted revenues by $28,800 and budgeted disbursements by $30,810. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety and business type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF MERRILL, IOWA

SCHEDULE 1

SCHEDULE OF CASH TRANSACTIONS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

RECEIPTS		
Property Tax		$ 147,292
Cable Franchise Tax		1,568
Licenses and Permits		1,185
Use of Money and Property:		
Interest on Investments	$ 2,499	
Rent	11,386	
		13,885
Intergovernmental:		
County Library Allocation	$ 5,747	
Fire Contracts	25,536	
		31,283
Charges for Services:		
Garbage Fees	$ 16,995	
Landfill Fees	29,600	
Ambulance Charges	25,274	
		71,869
Miscellaneous:		
Refunds and Reimbursements	$ 4,757	
Police Fines	16,702	
Fees	2,004	
Donations and Contributions	948	
Proceeds from Sale of Equipment	4,826	
Other	1,515	
		30,752
Total Receipts		$ 297,834

SCHEDULE OF CASH TRANSACTIONS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

DISBURSEMENTS		
Public Safety:		
Police:		
Personal Services	$ 39,858	
Commodities	9,806	
Capital Outlay	24,987	
		$ 74,651
Jail:		
Contractual Services		7,078
Fire:		
Contractual Services	$ 2,826	
Commodities	13,714	
Debt Service	17,335	
		33,875
Ambulance		12,560
Other Public Safety		2,074
		$ 130,238
Culture and Recreation:		
Community Center:		
Personal Services	$ 5,052	
Commodities	13,167	
		$ 18,219
Library:		
Personal Services	$ 6,705	
Commodities	5,965	
		12,670
Parks:		
Contractual Services	$ 2,455	
Commodities	5,453	
		7,908
Cemetery:		
Contractual Services		2,500
		$ 41,297
Community and Economic Development:		
Community Beautification:		
Contractual Services		$ 4,803

SCHEDULE OF CASH TRANSACTIONS

GENERAL FUND

FOR THE YEAR ENDED JUNE 30, 2006

Public Works:		
Garbage and Landfill:		
Contractual Services	$ 37,965	
Personal Services	1,548	
		$ 39,513
Street Maintenance:		
Personal Services		28,188
		$ 67,701
General Government:		
Mayor and Council Members:		
Personal Services	$ 1,938	
Contractual Services	2,134	
		$ 4,072
Clerk/Treasurer:		
Personal Services	$ 4,990	
Contractual Services	1,200	
		6,190
General Administration:		
Insurance	$ 39,339	
Unemployment Tax	83	
Publishing	1,156	
		40,578
City Hall:		
Commodities		4,221
Legal and Professional:		
Contractual Services		4,142
Other		5,879
		$ 65,082
Total Disbursements		$ 309,121
(Deficiency) of Receipts (Under) Disbursements		$(11,287)
TRANSFERS		
Operating Transfer In		30,924
Net		$ 19,637
Balance Beginning of Year		29,143
Balance End of Year		$ 48,780

CITY OF MERRILL, IOWA

SCHEDULE 2

SCHEDULE OF CASH TRANSACTIONS

SPECIAL REVENUE FUND

FOR THE YEAR ENDED JUNE 30, 2006

RECEIPTS		
Other City Tax:		
Local Option Sales Tax		$ 61,938
Intergovernmental:		
Road Use Tax Allocation	$ 63,129	
Additional Local Option Sales Tax	14,000	
		77,129
Total Receipts		$ 139,067
DISBURSEMENTS		
Public Works:		
Street Lighting		$ 10,739
Street Maintenance:		
Contractual Services	$ 2,806	
Commodities	13,860	
Capital Outlay	13,526	
		30,192
		$ 40,931
Culture and Recreation:		
Commodities		14,000
Total Disbursements		$ 54,931
Excess of Receipts Over Disbursements		$ 84,136
TRANSFERS		
Operating Transfer Out		(30,924)
Net		$ 53,212
Balance Beginning of Year		149,693
Balance End of Year		$ 202,905

CITY OF MERRILL, IOWA SCHEDULE 3

COMBINING SCHEDULE OF CASH TRANSACTIONS

ENTERPRISE FUNDS

FOR THE YEAR ENDED JUNE 30, 2006

RECEIPTS	Water	Sewer	Total
Use of Money and Property:			
Interest on Investments	$ 1,958	$ 214	$ 2,172
Charges for Service:			
Sale of Water	$ 53,139		$ 53,139
Installations and Connections .	5,012		5,012
Sewer Rental Fees		$ 25,229	25,229
	$ 58,151	$ 25,229	$ 83,380
Total Receipts	$ 60,109	$ 25,443	$ 85,552
DISBURSEMENTS			
Business Type Activities:			
Personal Services	$ 10,814	$ 10,814	$ 21,628
Commodities	83,577	12,061	95,638
Total Disbursements	$ 94,391	$ 22,875	$ 117,266
Excess (Deficiency) of Receipts Over (Under) Disbursements	$(34,282)	$ 2,568	$(31,714)
Balance Beginning of Year	145,478	12,723	158,201
Balance End of Year	$ 111,196	$ 15,291	$ 126,487

CITY OF MERRILL, IOWA

SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2006

Obligation	Date of Issue	Interest Rate	Amount Originally Issued	Balance Beginning of Year
Capital Lease - Fire Truck .	5/15/01	5.20 %	$ 131,990	$ 87,425
Capital Lease - Street Sweeper .	7/24/02	5.99 %	25,200	15,990
Capital Lease - Truck/Snow Plow	8/01/04	5.36 %	57,250	-
				$ 103,415

Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
	$ 12,788	$ 74,637	$ 4,547	$ 489
	5,023	10,967	958	614
$ 57,250	4,475	52,775	3,070	2,349
$ 57,250	$ 22,286	$ 138,379	$ 8,575	$ 3,452

HENJES, CONNER &
WILLIAMS, P.C.

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

To the Honorable Mayor and
Members of the City Council
City of Merrill, Iowa

We have audited the accompanying financial statements of the CITY OF MERRILL, IOWA, as of and for the year ended June 30, 2006, and have issued our report thereon dated September 13, 2006. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed a qualified opinion since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005.

Except as noted in the Independent Auditors' Report, 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 the City of Merrill's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Merrill's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However we believe item II-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Merrill'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 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. However, we noted an immaterial instance of noncompliance that is described in Part III of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Merrill and other parties to whom the City of Merrill may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Merrill during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

Henjes, Conner & Williams, P.C.

Certified Public Accountants

Sioux City, Iowa
September 13, 2006

CITY OF MERRILL, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Part I: Summary of the Independent Auditors' Results:

(a) A qualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005, and a qualified opinion was issued.

(b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The reportable condition is considered to be a material weakness.

(c) The audit did not disclose any noncompliance which is material to the financial statements.

CITY OF MERRILL, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Part II: Findings Related to the Financial Statements:

Reportable Conditions:

II-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The City's billings, collections, deposits, reconciliations, disbursements, and financial reporting are all handled by the same person.

Recommendation - We realize that with one office employee segregation of duties is not possible. However, we recommend that the City Council continue to approve expenditures and review reports on a monthly basis. In addition, the Council should consider having one of the Council members receive and review the bank statements each month.

Response - The Council will continue to approve expenditures and review reports on a monthly basis. In addition, the Chairman of the Finance Committee will conduct random reviews of bank statements and reports.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

CITY OF MERRILL, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2006

Part III: Other Findings Related to Statutory Reporting:

III-A-06 Certified Budget - The City amended its budget during the fiscal year ended June 30, 2006, and the amended budget was adopted by May 31, as required by the Code of Iowa, but not before disbursements for the Business Type Activities exceeded the function budget. Disbursements during the year ended June 30, 2006, exceeded the amount budgeted in the Public Safety and Business Type Activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation - The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City Council should, in the future, use the year-to-date disbursements by program portion of the monthly reports to more closely monitor disbursements and prepare an amended budget, if necessary.

Response - The City clerk is currently monitoring spending and will report necessary budget recommendations to the Council. Also, future budget amendments if necessary, will be examined and adopted in a timely manner, as provided by the Code of Iowa.

Conclusion - Response accepted.

III-B-06 Questionable Disbursements - No disbursements that did not meet the requirements of public purpose as defined in the Attorney General's opinion, dated April 25, 1979, were noted.

III-C-06 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-06 Business Transactions - No business transactions between the City and City officials or employees were noted.

III-E-06 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

Part III: Other Findings Related to Statutory Reporting:
(Cont.)

III-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. Minutes of Council proceedings were published within fifteen days as required by Chapter 372.13(6) of the Code of Iowa. The City published annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

III-G-06 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.