

CITY OF MERRILL, IOWA

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

JUNE 30, 2010

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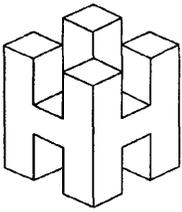
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CITY OF MERRILL, IOWA

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Richard Husman	Mayor	December 31, 2011
Bruce Norgaard	Mayor Pro Tem	December 31, 2011
Sara Jane Hauff	Council Member	December 31, 2011
Dan Pierson	Council Member	December 31, 2011
Nick Hartman	Council Member	December 31, 2013
Lyle Bernard	Council Member	December 31, 2013
Margaret Marienau	Clerk/Treasurer	Appointed Annually
Patrick Murphy	Attorney	Appointed Annually



**HENJES, CONNER &
WILLIAMS, P.C.**

CERTIFIED PUBLIC ACCOUNTANTS

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505 FIFTH STREET
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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 of the governmental activities, the business type activities, and each major fund of the CITY OF MERRILL, IOWA, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Merrill's management. Our responsibility is to express opinions 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, 2009.

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, 2009, 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, each major fund of the City of Merrill, Iowa, as of June 30, 2010, 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 March 30, 2011, 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 8 and 18 through 19 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 opinions on the financial statements that collectively comprise the City of Merrill's basic financial statements. The other supplementary information, included in Schedules 1 and 2, 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.

Benjes, Carver, & Williams, P.C.

Certified Public Accountants

Sioux City, Iowa
March 30, 2011

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, 2010. 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 Government-Wide financial statement consists of a Statement of Activities and Net Assets. This statement 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 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

Government-Wide Financial Statement

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, public works, health and social services, culture and recreation, community and economic development, general government, debt service and capital projects. 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	\$ 81,295
Operating Grants, Contributions and Restricted Interest	-
Capital Grants, Contributions and Restricted Interest	-

General Receipts:

Property Tax	154,299
Local Option Sales Tax	65,592
Road Use Tax	69,942
Grants and Contributions Not Restricted to Specific Purposes	1,588
Unrestricted Investment Earnings	4,517
Other General Receipts	125,767
Sale of Assets	-
Total Receipts	\$ 503,000

Disbursements:	
Public Safety	\$ 182,448
Public Works	130,153
Cultural and Recreational	44,835
Community and Economic Development	7,075
General Government	72,641
Debt Service	1,410
Capital Projects	<u>175,670</u>
 Total Disbursements	 \$ 614,232
Other Financing Sources:	
Issuance of Debt	\$ <u>170,560</u>
 Increase in Cash Basis Net Assets	 \$ 59,328
Cash Basis Net Assets Beginning of Year	<u>338,160</u>
Cash Basis Net Assets End of Year	\$ <u><u>397,488</u></u>

Changes in Cash Basis Net Assets of Business Type Activities

Receipts:	
Program Receipts:	
Charges for Service:	
Water	\$ 55,843
Sewer	27,403
General Receipts:	
Unrestricted Interest on Investments	<u>1,176</u>
 Total Receipts and Transfers	 \$ 84,422
Disbursements:	
Water	\$ 82,359
Sewer	<u>29,211</u>
 Total Disbursements	 \$ <u>111,570</u>
(Decrease) in Cash Balance	\$ (27,148)
Cash Basis Net Assets Beginning of Year	<u>121,512</u>
Cash Basis Net Assets End of Year	\$ <u><u>94,364</u></u>

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget once. The amendment was approved on May 17, 2010, and resulted in an increase in operating revenue related to funds received for insurance reimbursement. The amendment also resulted in an increase in operating disbursements related to the Civic Center floor repairs, extra park work and an increase in snow removal. The City had sufficient cash balances to absorb these additional costs.

During the year, the City began construction on a new fire department building. The City did not budget for this activity resulting in the City exceeding the approved budget.

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 2011 budget, tax rates, and fees charged for various City activities. One of those factors is the economy.

The City raised its property tax levy in the fiscal year 2011 budget from 8.4554 to 8.65234 per \$1,000 of taxable valuation.

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.

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	Disbursements	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
		Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental activities:							
Public safety	\$ 182,448	\$ 30,303			\$ (152,145)		\$(152,145)
Public works	130,153	50,992			(79,161)		(79,161)
Culture and recreation	44,835				(44,835)		(44,835)
Community and Economic Development	7,075				(7,075)		(7,075)
General Government	72,641				(72,641)		(72,641)
Debt service	1,410				(1,410)		(1,410)
Capital Projects	175,670				(175,670)		(175,670)
Total Governmental Activities	\$ 614,232	\$ 81,295			\$ (532,937)		\$(532,937)
Business Activities:							
Water	\$ 82,359	\$ 55,843				\$ (26,516)	\$ (26,516)
Sewer	29,211	27,403				(1,808)	(1,808)
Total Business Type Activities	\$ 111,570	\$ 83,246				\$ (28,324)	\$ (28,324)
Total	\$ 725,802	\$ 164,541			\$ (532,937)	\$ (28,324)	\$(561,261)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					\$ 154,299		\$ 154,299
Local option sales Tax					65,592		65,592
Road Use Tax					69,942		69,942
Grants and contributions not restricted to Specific Purposes					1,588		1,588
Unrestricted Interest on Investments					4,517	\$ 1,176	5,693
Fire Contracts					33,082		33,082
Rent					11,170		11,170
Issuance of Debt					170,560		170,560
Miscellaneous					81,515		81,515
Total general receipts and transfers					\$ 592,265	\$ 1,176	\$ 593,441
Change in cash basis net assets					\$ 59,328	\$ (27,148)	\$ 32,180
Cash basis net assets beginning of year					338,160	121,512	459,672
Cash basis net assets end of year					\$ 397,488	\$ 94,364	\$ 491,852
Cash Basis Net Assets							
Unrestricted					\$ 397,488	\$ 94,364	\$ 491,852
Total cash basis net assets					\$ 397,488	\$ 94,364	\$ 491,852

See Accompanying Notes to Financial Statements

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCESGOVERNMENTAL FUNDSAS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>General Fund</u>	<u>Special Revenue Fund</u>	<u>Total Governmental Funds</u>
<u>Receipts:</u>			
Property Tax	\$ 154,299		\$ 154,299
Other City Tax	2,130	\$ 65,592	67,722
Licenses and Permits	1,375		1,375
Use of money and property	15,688		15,688
Intergovernmental	40,289	69,942	110,231
Charges for services	81,295		81,295
Miscellaneous	72,390		72,390
Total Receipts	<u>\$ 367,466</u>	<u>\$ 135,534</u>	<u>\$ 503,000</u>
<u>Disbursements:</u>			
Operating:			
Public safety	\$ 182,448		\$ 182,448
Public works	64,502	\$ 65,651	130,153
Culture and recreation	44,835		44,835
Community and Economic Development	7,075		7,075
General Government	72,641		72,641
Debt service	1,410		1,410
Capital Projects	175,670		175,670
Total Disbursements	<u>\$ 548,581</u>	<u>\$ 65,651</u>	<u>\$ 614,232</u>
Excess (Deficiency) of Revenue Over (Under) Expenditures	\$ (181,115)	\$ 69,883	\$ (111,232)
<u>Other Financing Sources (Uses):</u>			
Issuance of debt	\$ 170,560		\$ 170,560
Transfers	21,364	\$ (21,364)	
Total other financing sources (uses)	<u>191,924</u>	<u>(21,364)</u>	<u>170,560</u>
Net Change in Fund Balance	\$ 10,809	\$ 48,519	\$ 59,328
Cash balance beginning of year	<u>\$ 201,642</u>	<u>\$ 136,518</u>	<u>\$ 338,160</u>
Cash balance end of year	<u>\$ 212,451</u>	<u>\$ 185,037</u>	<u>\$ 397,488</u>
<u>Cash Basis Fund Balance</u>			
Unreserved			
General Fund	\$ 212,451		\$ 212,451
Special Revenue Fund		\$ 185,037	185,037
Total cash basis fund balances	<u>\$ 212,451</u>	<u>\$ 185,037</u>	<u>\$ 397,488</u>

See Accompanying Notes to Financial Statements

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND CHANGES IN CASH BALANCESPROPRIETARY FUNDSAS OF AND FOR THE YEAR ENDED JUNE 30, 2010

	<u>Enterprise</u>		<u>Total</u>
	<u>Water</u>	<u>Sewer</u>	
<u>Operating receipts:</u>			
Charges for service	\$ 55,843	\$ 27,403	\$ 83,246
<u>Operating disbursements:</u>			
Business type activities	<u>82,359</u>	<u>29,211</u>	<u>111,570</u>
(Deficiency) of operating receipts (under) operating disbursements	\$ (26,516)	\$ (1,808)	\$ (28,324)
<u>Non-operating receipts:</u>			
Interest on investments	<u>1,053</u>	<u>123</u>	<u>1,176</u>
(Deficiency) of receipts (under) disbursements	\$ (25,463)	\$ (1,685)	\$ (27,148)
Cash balance beginning of year	<u>93,066</u>	<u>28,446</u>	<u>121,512</u>
Cash balance end of year	<u>\$ 67,603</u>	<u>\$ 26,761</u>	<u>\$ 94,364</u>
<u>Cash Basis Fund Balance</u>			
Unreserved	<u>\$ 67,603</u>	<u>\$ 26,761</u>	<u>\$ 94,364</u>

See Accompanying Notes to Financial Statements

CITY OF MERRILL, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

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 and recreation, public improvements and general administrative services. The City also provides water and sewer utilities for its citizens.

- 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.

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.

CITY OF MERRILL, IOWA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES
(Cont.) B. Basis of Presentation (Continued)

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

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 separate 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.

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.

CITY OF MERRILL, IOWA

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(Cont.)

- 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, 2010, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

Note 2 - DEPOSITS

The City's deposits in banks at June 30, 2010, 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.

THE CITY OF MERRILL, IOWA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 3 - BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Revenue Bond		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2011	\$ 170,560	\$ 6,822	\$ 14,000	\$ 7,410	\$ 184,560	\$ 14,232
2012	4,395	1,968	14,000	6,990	18,395	8,958
2013	5,000	1,364	14,000	6,570	19,000	7,934
2014	5,308	1,055	14,000	6,150	19,308	7,205
2015	5,635	728	15,000	5,730	20,635	6,458
2016 - 2020	6,168	380	77,000	21,870	83,168	22,250
2021 - 2025	-	-	82,000	10,020	82,000	10,020
2026 - 2030	-	-	17,000	510	17,000	510
Total	\$ <u>197,066</u>	\$ <u>12,317</u>	\$ <u>247,000</u>	\$ <u>65,250</u>	\$ <u>444,066</u>	\$ <u>77,567</u>

General Obligation Notes - The City borrowed \$26,506 on April 20, 2010, to purchase a vehicle for the police department. The City is required to make annual payments of \$6,363 due in July for the next four years with a final payment of \$6,548 due in 2015. The interest rate is 6%.

The City entered into an agreement to finance the construction of a new building for the fire department. The total borrowed during the year ended June 30, 2010, was \$170,560. One payment on the debt was made during the year. The balance at June 30, 2010, was \$169,289. This debt is financed at a 4% interest rate and will be extinguished at the completion of the building with a balloon payment paid with a new loan.

Revenue Bond - The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$300,000 of water revenue bond issued in September 2006. Proceeds from the bond provided financing for the purpose of constructing improvements and extensions to the municipal water works system of the City. The bond is payable solely from water customer net receipts and is payable through 2026. The total principal and interest remaining to be paid on the bond is \$312,250. For the current year, principal and interest paid and total customer net receipts were \$21,830 and \$55,843, respectively.

THE CITY OF MERRILL, IOWA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 4 - 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:

<u>Years Ending</u> <u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2011	\$ 30,541	\$ 4,097	\$ 34,638
2012	14,656	2,647	17,303
2013	15,342	1,961	17,303
2014	16,060	1,243	17,303
2015	<u>16,813</u>	<u>490</u>	<u>17,303</u>
Total	<u>\$ 93,412</u>	<u>\$ 10,438</u>	<u>\$ 103,850</u>

Note 5 - 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:

<u>Years Ending</u> <u>June 30,</u>	
2011	\$ 7,016
2012	7,006
2013	7,023
2014	7,033
2015	6,973
2016 and Thereafter	<u>14,005</u>
Total	<u>\$ 49,056</u>

Note 6 - 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.

THE CITY OF MERRILL, IOWA
NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2010

Note 6 - PENSION AND RETIREMENT BENEFITS

(Cont.) Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010, was \$7,446 equal to the required contribution for the year.

Note 7 - 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, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 1,422
Sick Leave	5,166
	\$ <u>6,588</u>

This liability has been computed based on rates of pay in effect at June 30, 2010.

Note 8 - ANTICIPATORY WARRANTS

During the year ended June 30, 2010, the City had no anticipatory warrants.

Note 9 - 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 10 - SUBSEQUENT EVENT

In preparing the financial statements, the City has evaluated all subsequent events, for potential recognition or disclosure, through March 30, 2011, the date the financial statements were available to be issued.

CITY OF MERRILL

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS, AND CHANGES IN BALANCES -
BUDGET AND ACTUAL (CASH BASIS) - ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS

REQUIRED SUPPLEMENTARY INFORMATION

YEAR ENDED JUNE 30, 2010

	Governmental	Proprietary	Total	Budgeted Amounts		Final to Total Variance
	Funds Actual	Funds Actual		Original	Final	
Receipts:						
Property Tax	\$ 154,299		\$ 154,299	\$ 150,756	\$ 150,756	\$ 3,543
Other City Tax	67,722		67,722	63,451	63,451	4,271
Licenses and Permits	1,375		1,375	1,150	1,150	225
Use of money and property	15,688	\$ 1,176	16,864	17,700	17,700	(836)
Intergovernmental	110,231		110,231	104,517	104,517	5,714
Charges for services	81,295	83,246	164,541	165,560	165,560	(1,019)
Miscellaneous	72,390		72,390	14,695	27,195	45,195
Total Receipts	\$ 503,000	\$ 84,422	\$ 587,422	\$ 517,829	\$ 530,329	\$ 57,093
Disbursements:						
Public safety	\$ 182,448		\$ 182,448	\$ 113,794	\$ 141,744	\$ 40,704
Public works	130,153		130,153	128,167	133,167	(3,014)
Culture and recreation	44,835		44,835	40,678	45,678	(843)
Community and Economic Development	7,075		7,075	4,125	7,125	(50)
General Government	72,641		72,641	73,440	73,440	(799)
Debt service	1,410		1,410	0	0	1,410
Capital Projects	175,670		175,670	0	0	175,670
Business Type activities		\$ 111,570	111,570	81,617	92,617	18,953
Total Disbursements	\$ 614,232	\$ 111,570	\$ 725,802	\$ 441,821	\$ 493,771	\$ 232,031
Excess of receipts over disbursements	\$ (111,232)	\$ (27,148)	\$ (138,380)	\$ 76,008	\$ 36,558	\$ (174,938)
Other financing sources, net	\$ 170,560		\$ 170,560			\$ 170,560
Excess (Deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	\$ 59,328	\$ (27,148)	\$ 32,180	\$ 76,008	\$ 36,558	\$ (4,378)
Balances beginning of year	\$ 338,160	\$ 121,512	\$ 459,672	\$ 346,989	\$ 367,406	\$ 92,266
Balances end of year	\$ 397,488	\$ 94,364	\$ 491,852	422,997	\$ 403,964	\$ 87,888

See Accompanying Notes to Financial Statements

THE CITY OF MERRILL, IOWA

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING

JUNE 30, 2010

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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. 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 Enterprise 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 \$12,500 and budgeted disbursements by \$51,950. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public safety, debt service, capital projects, and business type activities functions.

CITY OF MERRILL

SCHEDULE 1

SCHEDULE OF INDEBTEDNESS

YEAR ENDED JUNE 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>	<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
General Obligation Notes:									
Fire Station									
Construction Note	March 26, 2010	4.0%	\$ 170,560	-	\$170,560	\$ 1,274	\$169,286	\$ 135	-
Police Vehicle	April 20, 2010	6.0%	26,506	-	26,506	-	26,506	-	\$ 263
Total Notes Payable					<u>\$197,066</u>	<u>\$ 1,274</u>	<u>\$195,792</u>	<u>\$ 135</u>	<u>\$ 263</u>
Revenue Bond	September 20, 2006	3.0%	\$ 300,000	\$261,000	-	\$ 14,000	\$247,000	\$ 7,830	-
Capital Lease Obligations:									
Fire Truck	May 15, 2001	5.2%	\$ 131,990	\$ 32,324	-	\$ 15,783	\$ 16,541	\$ 1,672	\$ 108
Truck / Snow Plow	August 1, 2004	5.4%	57,250	38,542	-	5,695	32,847	2,030	1,467
Backhoe	October 1, 2009	4.5%	42,725	-	\$ 42,725	-	44,024	-	1,299
Total Capital Lease Obligations				<u>\$ 70,866</u>	<u>\$ 42,725</u>	<u>\$ 21,478</u>	<u>\$ 93,412</u>	<u>\$ 3,702</u>	<u>\$ 2,874</u>

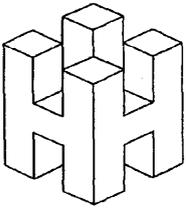
See Accompanying Notes to Financial Statements

NOTE / BOND MATURITIES AND OTHER FUTURE OBLIGATIONS

JUNE 30, 2010

General Obligation Bonds							
Fire Station Construction Note Issued March 26, 2010				Police Vehicle Issued April 20, 2010			
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Total		
2011	4%	\$ 169,286	6%	-	\$ 169,286		
2012		-	6%	\$ 4,395	4,395		
2013		-	6%	5,000	5,000		
2014		-	6%	5,308	5,308		
2015		-	6%	5,635	5,635		
2016		-	6%	6,168	6,168		
Total		<u>\$ 169,286</u>		<u>\$ 26,506</u>	<u>\$ 195,792</u>		
Revenue Bond							
Water Revenue Bond Issued September 20, 2006							
Year Ending June 30,	Interest Rate	Amount					
2011	3%	\$ 14,000					
2012	3%	14,000					
2013	3%	14,000					
2014	3%	14,000					
2015	3%	15,000					
2016	3%	15,000					
2017	3%	15,000					
2018	3%	15,000					
2019	3%	16,000					
2020	3%	16,000					
2021	3%	16,000					
2022	3%	16,000					
2023	3%	16,000					
2024	3%	17,000					
2025	3%	17,000					
2026	3%	17,000					
Total		<u>\$ 247,000</u>					
Capital Leases							
Fire Truck Issued May 15, 2001		Truck / Snow Plow Issued August 1, 2004		Backhoe Issued October 1, 2009			
Year Ending June 30,	Interest Rate	Amount	Interest Rate	Amount	Interest Rate	Amount	Total
2011	5.2%	\$ 16,541	5.4%	5,968	4.5%	8,032	\$ 30,541
2012		-	5.4%	\$ 6,255	4.5%	\$ 8,401	14,656
2013		-	5.4%	6,555	4.5%	8,787	15,342
2014		-	5.4%	6,870	4.5%	9,190	16,060
2015		-	5.4%	7,199	4.5%	9,614	16,813
Total		<u>\$ 16,541</u>		<u>\$ 32,847</u>		<u>\$ 44,024</u>	<u>\$ 93,412</u>

See Accompanying Notes to Financial Statements



**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 ACCORDANCE 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 governmental activities, the business type activities, and each major fund of the CITY OF MERRILL, IOWA, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 30, 2011. Our report on the financial statements, which were prepared in conformity with another 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, 2009.

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, but not for the purpose of expressing an opinion on the effectiveness of the City of Merrill's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Merrill's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings and Questioned Costs, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Merrill's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-A-10, II-B-10, II-C-10, and II-F-10 to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part II of the accompanying Schedule of Findings and Questioned Costs as items II-D-10, and II-E-10, to be significant deficiencies.

Compliance and Other Matters

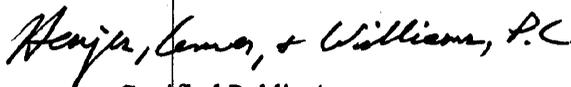
As part of obtaining reasonable assurance about whether the City of Merrill's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings and Questioned Costs as items II-G-10, II-H-10, II-I-10, II-J-10, II-K-10, II-L-10, and II-M-10. We also noted four immaterial instances of noncompliance that are 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, 2010, 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.

The City of Merrill has not provided responses to the findings identified in our audit and described in the accompanying Schedule of Findings and Questioned Costs. Accordingly, no such response is presented.

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.



Certified Public Accountants

Sioux City, Iowa
March 30, 2011

CITY OF MERRILL, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

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, 2009, and a qualified opinion was issued.

- (b) Significant deficiencies and material weaknesses in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II: Findings Related to the Financial Statements:

Reportable Conditions:

II-A-10 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 full 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.

II-B-10 Financial Reporting - During the audit, we identified a material amount of funds were not reported in the City's financial records. These funds were for accounts established for the police, fire and ambulance departments. Annual Financial Reports filed with the State of Iowa omitted these funds. Adjustments were made to properly include these amounts in the City's financial statements.

Recommendation - The City should implement procedures to ensure all City funds are included in the City's financial records and subjected to the same documentation standards and to ensure proper reporting.

CITY OF MERRILL, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements: (Continued)

Reportable Conditions:

II-C-10 Certain Disbursements Are Not Controlled - The City has established internal controls that are properly functioning from the general checking account. However, the City has accounts established for the Ambulance, Police, and Fire departments that are not subject to the established controls. Activity in these accounts are not being presented to the council for approval, checks are disbursed with only one signature, and supporting documentation was not maintained.

Recommendation - We recommend all City accounts follow the established internal control policies currently being utilized for the general fund.

II-D-10 Credit Cards - The City has issued credit cards for use by various employees while conducting City business. The City has not adopted a formal policy to regulate the use of credit cards.

Recommendation - The City should adopt a formal written policy regulating the use of City credit cards. The policy, at a minimum, should address who controls credit cards, who is authorized to use credit cards and for what purposes, as well as the types of supporting documentation required to substantiate charges.

II-E-10 Inadequate Vacation and Sick leave Records - The City lacks records to properly track vacation and sick leave usage. Reliance is placed on the employee's records to track their own vacation and sick leave.

Recommendation - Vacation and Sick leave should be accounted for and monitored by the City Clerk. Appropriate documentation should be maintained.

II-F-10 Reconciliation of Utility Billings, Collections and Delinquencies - Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation - A complete listing of delinquent accounts should be prepared each billing period. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a council-designated independent person should review the reconciliations and monitor delinquencies.

CITY OF MERRILL, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements: (Continued)

Instances of Noncompliance:

II-G-10 Notice to Bidders for Public Improvement Contract - The City entered into a contract to build a new fire station during the year. No evidence was available that a notice to bidders was published as required by Section 26.3 of Iowa Code.

Recommendation - All public improvement contracts over the threshold outlined in Section 26.3 of Iowa Code require a published notice to bidders. This notice should be maintained to provide documentation that state requirements have been met.

II-H-10 Unbilled Utility Activity - A delinquent customer for utility services, who was left active because of complications with a shut off valve, was not being billed for the continued utility activity.

Recommendation - All utility activity, whether the customer is current or not, should be billed, regardless of whether the individual is paying. The City should re-assess if additional shut-off valves should be installed to limit activity of non-paying customers.

II-I-10 Unsupported Write-off of Utility Balance - A balance due by a Utility customer was eliminated without any documentation supporting the write-off.

Recommendation - Documentation and approval of balances written off should be maintained to support the adjustment.

II-J-10 Undocumented Disbursement - A disbursement of funds did not go through the proper internal controls. We found one instance where funds were withdrawn from a city bank account through the form of a money order which was authorized only by the person using the funds. No documentation was maintained to support the purpose of the withdrawn funds.

Recommendation - Proper controls need to be applied to all City accounts and established processes need to be used. Documentation for disbursements should be maintained.

II-K-10 Improper disbursement - Multiple checking accounts were identified as belonging to the City that were not following established controls including requiring two signatures on the check. At least one instance was noted whereby the person authorizing the check was also the payee.

Recommendation - Proper controls need to be applied to all City accounts and established processes need to be used. Two signatures should be used in all situations.

CITY OF MERRILL, IOWA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

YEAR ENDED JUNE 30, 2010

Part II: Findings Related to the Financial Statements: (Continued)

Instances of Noncompliance:

II-L-10 Code of Ordinance - The City's code of ordinance has not been updated in the last five years as required by Chapter 380.0 of the Code of Iowa.

Recommendation - The City should compile a code of ordinances at least once every five years, as required.

II-M-10 No Public Hearing to Approve Construction Project - The City began construction on a new fire department building during the year. Section 26 of the Iowa Code requires a public hearing prior to the approval of large construction projects. The estimated cost of this project exceeded the threshold that requires the City to hold this meeting.

Recommendation - All projects over the amount stated in Section 26 of the Iowa Code are required to have a public hearing. The notice for the hearing must be published at least once before the date of the hearing as required in Section 362.3 in the Iowa Code.

Part III: Other Findings Related to Statutory Reporting:

III-A-10 Certified Budget - The City amended its budget during the fiscal year ended June 30, 2010, and the amended budget was adopted by May 31, as required by the Code of Iowa, but not before disbursements for the Public Safety, Community and Economic Development, and Business Type Activities exceeded the function budget. Disbursements during the year ended June 30, 2010, exceeded the amount budgeted in the Public Safety, Debt Service, Capital Projects, 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 in a timely manner, if necessary.

III-B-10 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.

CITY OF MERRILL, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
YEAR ENDED JUNE 30, 2010

Part III: Other Findings Related to Statutory Reporting: (Continued)

- III-C-10 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- III-D-10 Business Transactions - No business transactions between the City and City officials or employees were noted.
- III-E-10 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.
- III-F-10 Council Minutes - Transactions in checking accounts for the fire, ambulance, and police departments were found to have not been approved in the Council minutes. 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.
- Recommendation - We recommend all City checking accounts follow the same procedures as the general account. Activity in these checking accounts should be reviewed and approved by the city council.
- III-G-10 Deposits and Investments - A deposit agreement was approved by the City according to Chapter 12c.2 allowing for cash deposits up to \$500,000. During the year cash deposited at this institution exceeded the approved amount.
- Recommendation - We recommend the City revise the depository agreement to adequately provide for cash deposited.
- III-H-10 Revenue Bonds and Notes - No instances of noncompliance with the revenue bond and note resolutions were noted.
- III-I-10 Notice of Public Hearing for Public Improvements - The City did not publish a notice of public hearing on the Fire Station building project as required by Section 362.3 of the Iowa Code. The City failed to hold a hearing as required by Section 26.12 of the Iowa code.
- Recommendation - Before entering into a contract for a public improvement with an estimated total cost in excess of \$100,000, the Council should hold a public hearing and give notice at least four but not more than twenty days prior to the hearing.