

CITY OF STRATFORD, IOWA

INDEPENDENT AUDITOR'S REPORTS
FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION
SCHEDULE OF FINDINGS

AS OF AND FOR THE YEAR ENDED JUNE 30, 2005

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City of Stratford, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Mike Nepereny	Mayor	Jan 2006
Rick Woodard	Mayor Pro Tem	Jan 2008
Mark Doud	Council Member	Jan 2006
Karen Harill	Council Member	Resigned
Robert Hudson	Council Member	Jan 2006
Jerry Janney	Council Member	Jan 2008
Julie Ehresmann	Council Member	Jan 2006
Corinne Anderson	Manager/Treasurer	Resigned
F.D. Chip Baltimore II	Attorney	Jan 2006

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stratford, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Stratford's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

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 U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stratford as of June 30, 2005, 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 January 27, 2006 on our consideration of the City of Stratford'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 24 through 26 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 Stratford's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the two years ended June 30, 2004 (none of which is presented herein) and expressed unqualified opinions on those financial statements. 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.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

January 27, 2006

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stratford 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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased approximately \$424,000 or 46% from fiscal 2004 to fiscal 2005. This is mainly due to issuance of bonds in fiscal 2004.
- Disbursements increased approximately \$376,000 or 34% from fiscal 2004 to fiscal 2005. This is mainly due to expenditures for the pool renovation project.
- The City's total cash basis net assets decreased \$354,000 from June 30, 2004 to June 30, 2005. Of this amount, the assets of the governmental activities decreased \$320,000 and the assets of the business type activities decreased \$34,000.

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 detailed information about the nonmajor governmental funds.

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 U.S. generally accepted accounting principles. 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, increase 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, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, water, sewer, and garbage. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two types 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: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects 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 statements for governmental funds include 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 City maintains four Enterprise Funds to provide separate information for the electric, water, sewer and garbage funds, considered to be major funds of the City.

The required financial statements for proprietary funds include 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.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2005</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 17,282	28,501
Operating grants, contributions and restricted interest	102,429	82,079
Capital grants, contributions and restricted interest	12,158	796
General receipts:		
Property tax	240,064	212,071
Local option sales tax	41,133	47,897
Unrestricted interest on investments	12,350	16,903
Bond proceeds	391,688	---
Other general receipts	7,310	11,854
Transfers, net	<u>107,500</u>	<u>107,500</u>
Total receipts and transfers	<u>931,914</u>	<u>507,601</u>

	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2005</u>
Disbursements:		
Public safety	89,222	76,195
Public works	64,832	69,353
Health and social services	3,486	3,324
Culture and recreation	98,007	71,218
Community and economic development	43,236	13,198
General government	76,310	81,888
Debt service	33,409	77,247
Capital projects	<u>80,000</u>	<u>435,196</u>
Total disbursements	<u>488,502</u>	<u>827,619</u>
Increase in cash basis net assets	443,412	(320,018)
Cash basis net assets beginning of year	<u>246,654</u>	<u>690,066</u>
Cash basis net assets end of year	\$ 690,066	370,048
	=====	=====

The significant decrease in receipts was primarily the result of proceeds received from the issuance of GO Bond for pool renovations in fiscal 2004. The significant increase in disbursements was primarily the result of the pool renovation project.

	<u>Changes in Cash Basis Net Assets of Business Type Activities</u>	
	<u>Year ended June 30,</u>	
	<u>2004</u>	<u>2005</u>
Receipts:		
Program receipts:		
Charges for services:		
Water	\$ 73,349	73,201
Electric	513,053	519,470
Garbage and landfill	72,348	76,732
Sewer	44,739	43,292
Miscellaneous	<u>4,308</u>	<u>5,397</u>
Total receipts	<u>707,797</u>	<u>718,092</u>
Disbursements and transfers:		
Water	60,113	75,890
Electric	425,997	443,536
Garbage and landfill	68,852	73,064
Sewer	53,102	52,694
Transfers	<u>107,500</u>	<u>107,500</u>
Total disbursements and transfers	<u>715,564</u>	<u>752,684</u>
Increase (decrease) in cash balance	(7,767)	(34,592)
Cash basis net assets beginning of year	<u>756,343</u>	<u>748,576</u>
Cash basis net assets end of year	\$ 748,576	713,984
	=====	=====

INDIVIDUAL MAJOR FUND ANALYSIS

The general, road use, water and sewer cash balances showed marginal changes in cash balances.

The electric fund cash balance showed a decrease of approximately \$24,000. This was primarily due to a transfer of funds into the general fund for a pool renovation.

The pool renovation fund cash balance decreased by \$334,400 due to the construction of the new pool.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time for \$10,000. This amendment was due to an increase in local option sales taxes which was expended on the Hamilton County jail project.

DEBT ADMINISTRATION

At June 30, 2005, the City had approximately \$794,000 in bonds and other long-term debt.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City of Stratford's elected and appointed officials and citizens considered many factors when setting the fiscal year 2006 budget, tax rates and fees that will be charged for various City activities. One of the major factors taken into account was the increase in health care coverage costs for employees by approximately 28%. A second area of consideration was the increase in FICA and IPERS contributions by the City due to increases in City payroll. These indicators were taken into account when adopting the budget for fiscal year 2006.

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 Travis Cooke, City Manager, 805 Shakespeare Ave., Stratford, Iowa.

Basic Financial Statements

City of Stratford, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2005

		Program Receipts		
	<u>Disbursements</u>	<u>Charges for Service</u>	<u>Operating Grants, Contributions, and Restricted Interest</u>	<u>Capital Grants, Contributions, and Restricted Interest</u>
Functions/Programs:				
Governmental activities:				
Public safety	\$ 76,195	1,031	22,380	-
Public works	69,353	13,761	50,150	-
Health and social services	3,324	-	-	-
Culture and recreation	71,218	13,409	9,489	796
Community and economic development	13,198	-	-	-
General government	81,888	300	60	-
Debt service	77,247	-	-	-
Capital projects	435,196	-	-	-
Total governmental activities	827,619	28,501	82,079	796
Business type activities:				
Water	75,890	73,201	-	-
Electric	443,536	519,470	-	-
Garbage and landfill	73,064	76,732	-	-
Nonmajor - sewer	52,694	43,292	-	-
Total business type activities	645,184	712,695	-	-
Total	\$ 1,472,803	741,196	82,079	796

General Receipts:

Property tax levied for:
 General purposes
 Tax increment financing
 Debt service
Local option sales tax
Unrestricted interest on investments
Miscellaneous
Transfers
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

Restricted:
 Streets
 Urban renewal purposes
 Debt service
 Other purposes
Unrestricted
Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and
Changes in Cash Basis Net Assets

Governmental <u>Activities</u>	Business Type <u>Activities</u>	<u>Total</u>
(52,784)	-	(52,784)
(5,442)	-	(5,442)
(3,324)	-	(3,324)
(47,524)	-	(47,524)
(13,198)	-	(13,198)
(81,528)	-	(81,528)
(77,247)	-	(77,247)
<u>(435,196)</u>	<u>-</u>	<u>(435,196)</u>
<u>(716,243)</u>	<u>-</u>	<u>(716,243)</u>
-	(2,689)	(2,689)
-	75,934	75,934
-	3,668	3,668
<u>-</u>	<u>(9,402)</u>	<u>(9,402)</u>
<u>-</u>	<u>67,511</u>	<u>67,511</u>
<u>(716,243)</u>	<u>67,511</u>	<u>(648,732)</u>
118,023	-	118,023
44,440	-	44,440
49,608	-	49,608
47,897	-	47,897
16,903	-	16,903
11,854	5,397	17,251
<u>107,500</u>	<u>(107,500)</u>	<u>-</u>
<u>396,225</u>	<u>(102,103)</u>	<u>294,122</u>
(320,018)	(34,592)	(354,610)
<u>690,066</u>	<u>748,576</u>	<u>1,438,642</u>
<u>\$ 370,048</u>	<u>713,984</u>	<u>1,084,032</u>
(4,010)	-	(4,010)
144,834	-	144,834
(8,787)	30,799	22,012
17,844	-	17,844
<u>220,167</u>	<u>683,185</u>	<u>903,352</u>
<u>\$ 370,048</u>	<u>713,984</u>	<u>1,084,032</u>

City of Stratford, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2005

	<u>General</u>	<u>Special Revenue Road Use</u>
Receipts:		
Property tax	\$ 117,279	-
Tax increment financing collections	-	-
Other city tax	745	-
Licenses and permits	1,135	-
Use of money and property	19,149	-
Intergovernmental	35,955	62,027
Charges for service	13,839	-
Miscellaneous	5,797	-
Total receipts	<u>193,899</u>	<u>62,027</u>
Disbursements:		
Operating:		
Public safety	29,010	-
Public works	-	69,007
Health and social services	3,324	-
Culture and recreation	70,071	-
Community and economic development	1,175	-
General government	70,710	-
Debt service	-	-
Capital projects	-	-
Total disbursements	<u>174,290</u>	<u>69,007</u>
Excess (deficiency) of receipts over (under) disbursements	<u>19,609</u>	<u>(6,980)</u>
Other financing sources (uses):		
Operating transfers in	1,067	-
Operating transfers out	(2,500)	-
Total other financing sources (uses)	<u>(1,433)</u>	<u>-</u>
Net change in cash balances	18,176	(6,980)
Cash balances beginning of year	117,138	2,970
Cash balances end of year	<u>\$ 135,314</u>	<u>(4,010)</u>
Cash Basis Fund Balances		
Reserved:		
Debt service	\$ -	-
Unreserved:		
General fund	135,314	-
Special revenue funds	-	(4,010)
Capital project funds	-	-
Total cash basis fund balances	<u>\$ 135,314</u>	<u>(4,010)</u>

See notes to financial statements.

Exhibit B

<u>Capital Projects Pool Renovation</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
-	63,428	180,707
-	30,156	30,156
-	48,363	49,108
-	-	1,135
-	-	19,149
-	1,374	99,356
-	-	13,839
<u>796</u>	<u>60</u>	<u>6,653</u>
<u>796</u>	<u>143,381</u>	<u>400,103</u>
-	47,186	76,196
-	346	69,353
-	-	3,324
-	1,147	71,218
-	12,023	13,198
-	11,178	81,888
-	77,247	77,247
<u>435,196</u>	<u>-</u>	<u>435,196</u>
<u>435,196</u>	<u>149,127</u>	<u>827,620</u>
<u>(434,400)</u>	<u>(5,746)</u>	<u>(427,517)</u>
100,000	35,166	136,233
-	(26,233)	(28,733)
<u>100,000</u>	<u>8,933</u>	<u>107,500</u>
(334,400)	3,187	(320,017)
<u>391,754</u>	<u>178,203</u>	<u>690,065</u>
<u>57,354</u>	<u>181,390</u>	<u>370,048</u>
-	(8,787)	(8,787)
-	-	135,314
-	162,678	158,668
<u>57,354</u>	<u>27,499</u>	<u>84,853</u>
<u>57,354</u>	<u>181,390</u>	<u>370,048</u>

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2005

	Enterprise Funds				
	<u>Water</u>	<u>Electric</u>	<u>Garbage and Landfill</u>	<u>Nonmajor- Sewer</u>	<u>Total</u>
Operating receipts:					
Charges for service	\$ 72,046	518,803	76,732	43,291	710,872
Miscellaneous	<u>1,155</u>	<u>667</u>	<u>-</u>	<u>1</u>	<u>1,823</u>
Total operating receipts	<u>73,201</u>	<u>519,470</u>	<u>76,732</u>	<u>43,292</u>	<u>712,695</u>
Operating disbursements:					
Business type activities	<u>75,890</u>	<u>443,536</u>	<u>73,064</u>	<u>25,378</u>	<u>617,868</u>
Total operating disbursements	<u>75,890</u>	<u>443,536</u>	<u>73,064</u>	<u>25,378</u>	<u>617,868</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(2,689)</u>	<u>75,934</u>	<u>3,668</u>	<u>17,914</u>	<u>94,827</u>
Non-operating receipts (disbursements):					
Miscellaneous	-	5,397	-	-	5,397
Debt service	<u>-</u>	<u>-</u>	<u>-</u>	<u>(27,316)</u>	<u>(27,316)</u>
Total non-operating receipts (disbursements)	<u>-</u>	<u>5,397</u>	<u>-</u>	<u>(27,316)</u>	<u>(21,919)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(2,689)</u>	<u>81,331</u>	<u>3,668</u>	<u>(9,402)</u>	<u>72,908</u>
Operating transfers out	<u>(2,500)</u>	<u>(105,000)</u>	<u>-</u>	<u>-</u>	<u>(107,500)</u>
Net change in cash balances	<u>(5,189)</u>	<u>(23,669)</u>	<u>3,668</u>	<u>(9,402)</u>	<u>(34,592)</u>
Cash balances beginning of year	<u>99,249</u>	<u>634,592</u>	<u>1,466</u>	<u>13,269</u>	<u>748,576</u>
Cash balances end of year	<u>\$ 94,060</u>	<u>610,923</u>	<u>5,134</u>	<u>3,867</u>	<u>713,984</u>
Cash Bases Fund Balances					
Reserved for debt service	-	-	-	30,799	30,799
Unreserved	<u>94,060</u>	<u>610,923</u>	<u>5,134</u>	<u>(26,932)</u>	<u>683,185</u>
Total cash basis fund balances	<u>\$ 94,060</u>	<u>610,923</u>	<u>5,134</u>	<u>3,867</u>	<u>713,984</u>

See notes to financial statements.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

(1) Summary of Significant Accounting Policies

The City of Stratford is a political subdivision of the State of Iowa located in Hamilton and Webster counties. It was first incorporated in 1883 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, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric and garbage utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Stratford 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 has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does 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 board: Hamilton County Joint E911 Service Board.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary 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 services.

The Statement of Activities and Net Assets presents the City's nonfiduciary 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 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 – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental or enterprise funds.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

The City reports the following major 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.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Capital Projects Pool Renovation Fund is utilized to account for swimming pool improvement costs.

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Garbage and Landfill Fund accounts for the operation and maintenance of the City's garbage and landfill operations.

C. Measurement Focus and Basis of Accounting

The City of Stratford 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 U.S. generally accepted accounting principles.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

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, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government, debt service, and capital projects functions.

(2) **Cash**

The City's deposits in banks at June 30, 2005 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 improvements certificates of a drainage district.

There were no investments at June 30, 2005. During the year, the City invested its excess funds in certificates of deposit and money market savings accounts.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes and revenue bonds are as follows:

Year Ending	General Obligation Notes		Revenue Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30,						
2006	\$ 61,346	17,603	20,000	7,438	18,425	11,885
2007	66,705	15,601	21,000	6,514	19,881	10,429
2008	67,450	13,283	22,000	5,544	21,451	8,858
2009	65,000	10,783	23,000	4,527	23,146	7,164
2010	40,000	8,328	24,000	3,465	24,975	5,335
2011-2014	<u>175,000</u>	<u>18,018</u>	<u>51,000</u>	<u>3,557</u>	<u>49,990</u>	<u>4,255</u>
Total	\$ 475,501	83,616	161,000	31,045	157,868	47,926
	=====	=====	=====	=====	=====	=====

Year Ending	Total	
June 30,	Principal	Interest
2006	\$ 99,771	36,926
2007	107,586	32,544
2008	110,901	27,685
2009	111,146	22,474
2010	88,975	17,128
2011-2014	<u>275,990</u>	<u>25,830</u>
Total	\$ 794,369	162,587
	=====	=====

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (A) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (B) Sufficient monthly transfers shall be made to a sewer revenue sinking fund account for the purpose of making the bond principal and interest payments when due.
- (C) A sewer revenue bond reserve account is to be established and the amount to remain deposited in this account until the series 1991 bonds have been paid in full, shall be equal to the lesser of (1) the maximum amount of principal and interest becoming due on the series 1991 bonds in any succeeding fiscal year or (2) 10 percent of the principal amount of the series 1991 bonds then outstanding.

The City's sewer utility account had a negative unreserved balance at June 30, 2005.

(4) 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.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

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. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2005, 2004, and 2003 were \$7,705, \$7,419, and \$6,919, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. Sick leave hours accumulate and are paid only when used. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payments payable to employees at June 30, 2005, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 6,000 =====

This liability has been computed based on rates of pay in effect at June 30, 2005.

(6) Risk Management

The City of Stratford 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 in any of the past three fiscal years.

City of Stratford, Iowa
Notes to Financial Statements

June 30, 2005

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue: Local Option Sales Tax	\$ 1,067
Capital Projects: Pool Renovation	Enterprise: Electric	100,000
Capital Projects: Capital Improvement	General	10,000
	Enterprise Water	2,500
	Electric	5,000
Debt Service TIF GO Note	Special Revenue: TIF	<u>25,100</u>
Total		\$ 143,667 =====

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

(8) Deficit Fund Balances

The Enterprise Fund, Sewer Utility Account had a deficit unreserved balance of \$26,932 at June 30, 2005. The Council is reviewing to see if a rate increase is needed. The Council and manager will contact the City attorney to see if this is a violation of the revenue bond.

The Special Revenue Fund, Project Share Account had a deficit balance of \$2,124 at June 30, 2005. This deficit will be eliminated upon transfer of monies from general fund.

The Debt Service Fund, Fire Truck Replacement Account had a deficit balance of \$8,787 at June 30, 2005. This deficit will be eliminated upon receipt of property taxes.

The Special Revenue Fund, Road Use Tax had a deficit balance of \$4,010 at June 30, 2005. This deficit will be eliminated upon the receipt of road tax revenue.

(9) Operating Leases

The City of Stratford has entered into a lease agreement to lease a copier for 48 months at \$96 per month. This lease expires November 2005 at which time one of four options may be exercised. Lease payments made during June 30, 2005 were \$1,154. Future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
6-30-06	\$ 481
	=====

(10) Purchase Agreement

The City of Stratford has entered into a purchase agreement to purchase a mosquito fogger for \$9,352. The agreement required two annual payments of \$4,676. Future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
6-30-06	\$ 4,676
6-30-07	<u>4,676</u>
	\$ 9,352
	=====

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2005

(11) Construction Commitment

The City has committed to a pool renovation project for approximately \$500,000. This will be financed with \$400,000 from issuance of debt and \$100,000 from the Electric Fund. As of June 30, 2005 there is approximately \$73,000 yet to be spent on this project.

Required Supplementary Information

City of Stratford, Iowa
 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, 2005

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 180,707	-
Tax increment financing collections	30,156	-
Other city tax	49,108	-
Licenses and permits	1,135	-
Use of money and property	19,149	-
Intergovernmental	99,356	-
Charges for service	13,839	710,872
Miscellaneous	<u>6,653</u>	<u>7,220</u>
Total receipts	<u>400,103</u>	<u>718,092</u>
Disbursements:		
Public safety	76,196	-
Public works	69,352	-
Health and social services	3,324	-
Culture and recreation	71,218	-
Community and economic development	13,198	-
General government	81,888	-
Debt service	77,247	-
Capital projects	435,196	-
Business type activities	<u>-</u>	<u>645,184</u>
Total disbursements	<u>827,619</u>	<u>645,184</u>
Excess (deficiency) of receipts over (under) disbursements	(427,516)	72,908
Other financing sources, net	<u>107,500</u>	<u>(107,500)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(320,017)	(34,592)
Balances beginning of year	<u>690,065</u>	<u>748,576</u>
Balances end of year	<u>\$ 370,048</u>	<u>713,984</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Original</u>	<u>Final</u>	Final to Net <u>Variance</u>
180,707	133,159	133,159	47,548
30,156	55,075	55,075	(24,919)
49,108	37,560	47,560	1,548
1,135	1,005	1,005	130
19,149	17,000	17,000	2,149
99,356	93,318	93,318	6,038
724,711	805,000	805,000	(80,289)
13,873	5,300	5,300	8,573
<u>1,118,195</u>	<u>1,147,417</u>	<u>1,157,417</u>	<u>(39,222)</u>
76,196	76,049	86,049	9,854
69,352	70,448	70,448	1,095
3,324	4,205	4,205	881
71,218	69,200	69,200	(2,018)
13,198	5,000	5,000	(8,198)
81,888	76,950	76,950	(4,938)
77,247	57,559	57,559	(19,688)
435,196	400,000	400,000	(35,196)
645,184	742,000	742,000	96,816
<u>1,472,803</u>	<u>1,501,411</u>	<u>1,511,411</u>	<u>38,608</u>
(354,608)	(353,994)	(353,994)	(615)
<u>-</u>	<u>400,000</u>	<u>400,000</u>	<u>(400,000)</u>
(354,609)	46,006	46,006	(400,615)
<u>1,438,641</u>	<u>982,923</u>	<u>982,923</u>	<u>455,718</u>
<u>1,084,032</u>	<u>1,028,929</u>	<u>1,028,929</u>	<u>55,103</u>

City of Stratford, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2005

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 or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and 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 disbursements by \$10,000. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, disbursements exceeded the amounts budgeted in the culture and recreation, community and economic development, general government, debt service and capital projects functions.

Other Supplementary Information

City of Stratford, Iowa

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2005

	Special Revenue			
	Local Option <u>Sales Tax</u>	Employee <u>Benefits</u>	Project <u>Share</u>	<u>TIF</u>
Receipts:				
Property tax	\$ -	14,176	-	-
Tax increment financing collections	-	-	-	30,156
Other city tax	47,897	109	-	-
Intergovernmental	-	-	-	-
Miscellaneous	-	-	60	-
Total receipts	<u>47,897</u>	<u>14,285</u>	<u>60</u>	<u>30,156</u>
Disbursements:				
Operating:				
Public safety	46,830	356	-	-
Public works	-	346	-	-
Culture and recreation	-	1,147	-	-
Community and economic development	-	-	-	12,023
General government	-	10,713	465	-
Debt service	-	-	-	-
Total disbursements	<u>46,830</u>	<u>12,562</u>	<u>465</u>	<u>12,023</u>
Excess (deficiency) of receipts over (under) disbursements	<u>1,067</u>	<u>1,723</u>	<u>(405)</u>	<u>18,133</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	<u>(1,067)</u>	<u>-</u>	<u>-</u>	<u>(25,166)</u>
Total other financing sources (uses)	<u>(1,067)</u>	<u>-</u>	<u>-</u>	<u>(25,166)</u>
Net change in cash balances	-	1,723	(405)	(7,033)
Cash balances beginning of year	-	18,246	(1,719)	151,866
Cash balances end of year	<u>\$ -</u>	<u>19,969</u>	<u>(2,124)</u>	<u>144,833</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	-	19,969	(2,124)	144,833
Capital project funds	-	-	-	-
Total cash basis fund balances	<u>\$ -</u>	<u>19,969</u>	<u>(2,124)</u>	<u>144,833</u>

See accompanying independent auditor's report.

Schedule 1

<u>Debt Service</u>		<u>Capital Projects</u>		
<u>Fire Truck Replacement</u>	<u>TIFGO Note</u>	<u>Capital Improvements</u>	<u>Capital Equipment</u>	<u>Total</u>
49,252	-	-	-	63,428
-	-	-	-	30,156
357	-	-	-	48,363
1,374	-	-	-	1,374
-	-	-	-	60
<u>50,983</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>143,381</u>
-	-	-	-	47,186
-	-	-	-	346
-	-	-	-	1,147
-	-	-	-	12,023
-	-	-	-	11,178
52,081	25,166	-	-	77,247
<u>52,081</u>	<u>25,166</u>	<u>-</u>	<u>-</u>	<u>149,127</u>
<u>(1,098)</u>	<u>(25,166)</u>	<u>-</u>	<u>-</u>	<u>(5,746)</u>
-	25,166	-	10,000	35,166
-	-	-	-	(26,233)
-	<u>25,166</u>	-	<u>10,000</u>	<u>8,933</u>
(1,098)	-	-	10,000	3,187
<u>(7,689)</u>	<u>-</u>	<u>3,892</u>	<u>13,607</u>	<u>178,203</u>
<u><u>(8,787)</u></u>	<u><u>-</u></u>	<u><u>3,892</u></u>	<u><u>23,607</u></u>	<u><u>181,390</u></u>
(8,787)	-	-	-	(8,787)
-	-	-	-	162,678
-	-	3,892	23,607	27,499
<u>(8,787)</u>	<u>-</u>	<u>3,892</u>	<u>23,607</u>	<u>181,390</u>

City of Stratford, Iowa
 Schedule of Indebtedness
 Year ended June 30, 2005

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Fire equipment	Aug 15, 1996	5.65 %	\$ 65,000
Water and sewer improvements	Feb 1, 1999	4.00-4.70 %	190,000
Swimming pool	May 1, 2004	1.75-4.20 %	400,000
Total			
Revenue bonds:			
Sewer	Jun 1, 1992	4.62 %	\$ 350,000
Urban renewal tax increment financing (TIF)			
revenue bonds	May 1, 2001	7.75 %	\$ 230,000

See accompanying independent auditor's report.

Schedule 2

<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>
26,473	-	5,972	20,501	1,512	-
105,000	-	20,000	85,000	4,765	-
<u>400,000</u>	<u>-</u>	<u>30,000</u>	<u>370,000</u>	<u>14,197</u>	<u>-</u>
<u>\$ 531,473</u>	<u>-</u>	<u>55,972</u>	<u>475,501</u>	<u>20,474</u>	<u>-</u>
<u>\$ 180,000</u>	<u>-</u>	<u>1,900</u>	<u>161,000</u>	<u>8,316</u>	<u>-</u>
<u>\$ 165,511</u>	<u>-</u>	<u>7,643</u>	<u>157,868</u>	<u>12,706</u>	<u>-</u>

Bond and Note Maturities

June 30, 2005

Revenue Bond		
Sewer		
Issued June 1, 1992		
Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Amount</u>
2006	4.62 %	\$ 20,000
2007	4.62	21,000
2008	4.62	22,000
2009	4.62	23,000
2010	4.62	24,000
2011-2012	4.62	51,000
Total		<u>\$ 161,000</u>

Urban Renewal Tax Increment Financing (TIF) Revenue Bonds		
Issued May 1, 2001		
Year Ending <u>June 30,</u>	Interest <u>Rates</u>	<u>Amount</u>
2006	7.75 %	\$ 18,425
2007	7.75	19,881
2008	7.75	21,451
2009	7.75	23,146
2010	7.75	24,975
2011-2012	7.75	49,990
Total		<u>\$ 157,868</u>

(continued)

Bond and Note Maturities

June 30, 2005

Year Ending <u>June 30,</u>	General Obligation Notes							<u>Total</u>
	<u>Fire Equipment</u>		<u>Sewer and Water</u>		<u>Swimming Pool</u>			
	<u>Issued Aug 15, 1996</u>		<u>Issued Feb 1, 1999</u>		<u>Issued May 1, 2004</u>			
	Interest		Interest		Interest			
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>		
2006	5.65 %	\$ 6,346	4.45 %	\$ 20,000	2.15 %	\$ 35,000	61,346	
2007	5.65	6,705	4.50	20,000	2.60	40,000	66,705	
2008	5.65	7,450	4.60	20,000	2.95	40,000	67,450	
2009		-	4.70	25,000	3.20	40,000	65,000	
2010		-		-	3.45	40,000	40,000	
2011		-		-	3.70	40,000	40,000	
2012		-		-	3.90	45,000	45,000	
2013		-		-	4.05	45,000	45,000	
2014		-		-	4.20	45,000	45,000	
Total		<u>\$ 20,501</u>		<u>\$ 85,000</u>		<u>\$ 370,000</u>	<u>475,501</u>	

See accompanying independent auditor's report.

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Three Years

	<u>2005</u>	<u>2004</u>	<u>2003</u>
Receipts:			
Property tax	\$ 180,707	116,850	114,665
Tax increment financing collections	30,156	122,258	129,822
Other city tax	49,108	42,089	30,236
Licenses and permits	1,135	1,163	1,151
Use of money and property	19,149	13,750	13,731
Intergovernmental	99,355	114,479	89,684
Charges for service	13,839	16,378	20,057
Miscellaneous	<u>6,653</u>	<u>5,759</u>	<u>19,930</u>
 Total	 <u>\$ 400,102</u>	 <u>432,726</u>	 <u>419,276</u>
 Disbursements:			
Operating:			
Public safety	\$ 76,195	89,222	62,788
Public works	69,353	64,832	65,255
Health and social services	3,324	3,486	1,828
Culture and recreation	71,218	98,007	71,714
Community and economic development	1,175	43,236	63,213
General government	93,911	76,310	70,705
Debt service	77,247	33,409	34,259
Capital projects	<u>435,196</u>	<u>80,000</u>	<u>-</u>
 Total	 <u>\$ 827,619</u>	 <u>488,502</u>	 <u>369,762</u>

See accompanying independent auditor's report.

Independent Auditor's 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:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stratford, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 27, 2006. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards 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 Stratford's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. 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 Stratford's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

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, of the reportable conditions described above, we believe item I-A-05 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stratford's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 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 interpretation 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 Stratford and other parties to whom the City of Stratford may report including federal awarding agencies and pass-through entities. 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 Stratford 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.

Cornwell, Frideres, Maher & Associates, P.C.
Certified Public Accountants

January 27, 2006

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2005

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-05 Segregation of Duties - During our review of internal control, the existing procedures are evaluated in order to determine that incompatible duties, from a control standpoint, are not performed by the same employee. This segregation of duties helps to prevent loss from employee error or dishonesty and therefore maximizes the accuracy of the City's financial statements. We noted that one employee handles almost all of the financial duties, including reconciling accounts and recording financial data.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. Therefore, we recommend the Council maintain its diligence in the review of the financial records.

Response and Corrective Action Planned - We will continue our review.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-05 Official Depositories - A resolution naming official depositories has been approved by the City Council. However, the maximum deposit amount stated in the resolution for one financial institution was exceeded during the year ended June 30, 2005.

Recommendation - The City should amend its depository resolution in sufficient amounts to make sure its deposits are not exceeded, in accordance with Chapter 12C.2 of the Code of Iowa.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2005

Response – This was overlooked this year. We will increase our depository resolution at the next council meeting.

Conclusion – Response accepted.

- II-B-05 Certified Budget - Disbursements during the year ended June 30, 2005 exceeded the amounts budgeted in the culture and recreation, community and economic development, general government, debt service, and capital projects 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 sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in sufficient amounts in the future, if applicable.

Conclusion – Response accepted.

- II-C-05 Questionable Disbursements - No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

- II-D-05 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

- II-E-05 Business Transactions - Business transactions between the City and City officials are detailed as follows:

The City of Stratford purchases its commercial insurance from EMC Insurance of which Rick Woodard, council member, is the agent. Total premiums paid for this coverage was \$30,462 for the year ended June 30, 2005. This does not appear to be a conflict of interest as insurance is a service and falls outside the items that are normally bid on.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2005

II-F-05 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage is reviewed annually to insure that the coverage is adequate for current operations.

II-G-05 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not. However, it was noted that some of the minutes were not signed. Also, the City did not publish annual gross salaries in accordance with an Attorney General's opinion dated April 12, 1978.

Recommendation - The minutes should be signed as required by chapter 380.7 of the Code of Iowa. The City should comply with Chapter 21 of the Code of Iowa and publish individual salaries as required.

Response - We will do this in the future.

Conclusion - Response accepted.

II-H-05 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted, other than noted under Item II-A-05.

II-I-05 Revenue Bonds - The City had a deficit unreserved balance in the Sewer Utility Account at June 30, 2005.

Recommendation - City officials should monitor this account closely to return it to a positive balance. City officials should also consult with the City attorney to see if this deficit balance is a violation of the bond resolution.

Response - We will do this.

Conclusion - Response accepted.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2005

II-J-05 Financial Condition - As noted in notes to financial statements, footnote eight, there were several accounts with deficit balances at June 30, 2005.

Recommendation - City officials should monitor these accounts closely to return them to a positive balance.

Response - We will review these accounts closely during the next budget year.

Conclusion - Response accepted.

II-K-05 Sales Tax – It was noted out of the ten customers tested one customer’s sales tax was not computed correctly.

Recommendation – The City should review their bills to insure that the proper sales tax is being assessed to the citizens.

Response – This appears to be an isolated incident. We will check with our software vendor to correct this.

Conclusion – Response accepted.