



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

June 12, 2007

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Strawberry Point, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2006, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$3,221,515 for the year ended June 30, 2006. The receipts included \$357,154 in property tax, \$1,373,237 from charges for service, \$234,334 from operating grants, contributions and restricted interest, \$438,136 from capital grants, contributions and restricted interest, \$80,927 from local option sales tax, \$18,322 from unrestricted interest on investments, \$689,442 from bond proceeds and \$29,963 from other general receipts.

Disbursements for the year totaled \$2,763,958, and included \$269,071 for public safety, \$193,456 for culture and recreation and \$164,390 for public works. Also, disbursements for business type activities totaled \$1,838,565.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF STRAWBERRY POINT
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2006

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City of Strawberry Point

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2006)		
Theresa Brietbach	Mayor	Jan 2006
Bob McCahen	Council Member	Jan 2006
Dean Courtnage	Council Member	Jan 2008
Douglas Schmidt	Council Member	Jan 2008
David Gould	Council Member	Jan 2008
Bill Green	Council Member	Jan 2008
(After January 2006)		
Douglas Schmidt	Mayor	Jan 2008
Dean Courtnage	Council Member	Jan 2008
David Gould	Council Member	Jan 2008
Bill Green	Council Member	Jan 2008
Dale Fox	Council Member	Jan 2010
Norm Rizer	Council Member	Jan 2010
Carl Strong	Administrator	Indefinite
Laura Bindert	Clerk	Indefinite
Thomas Munter	Treasurer	Indefinite
Timothy T. Schloss	Attorney	Indefinite

City of Strawberry Point



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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 Strawberry Point, Iowa, as of and for the year ended June 30, 2006, 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 Strawberry Point'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 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 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. 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 fund balance at July 1, 2005.

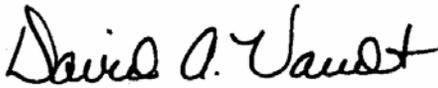
In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2005, as discussed in the preceding paragraph, the financial statements referred to above present 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 Strawberry Point as of June 30, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2006, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

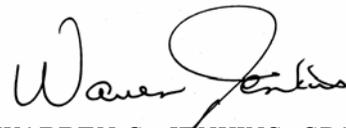
In accordance with Government Auditing Standards, we have also issued our report dated March 6, 2007 on our consideration of the City of Strawberry Point's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 7 through 12 and 28 through 30 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 Strawberry Point's basic financial statements. Other supplementary information included in Schedules 1 through 4, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments and Non-Profit Organizations, 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, except for the effects 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 fund balance at July 1, 2005, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2006 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$328,000, due primarily to grant receipts in the Capital Projects Fund for the streetscape project.
- The cash basis net assets of the City's business type activities increased approximately \$129,000, due primarily to bond proceeds for the sewer project.

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 to the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

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 operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 that 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, 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, sewer and water utilities. These activities are financed primarily by user fees and related 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 available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Local Option Sales Tax, 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

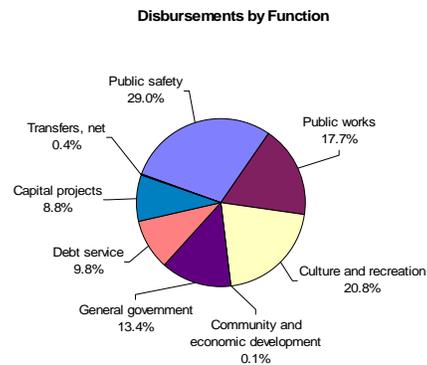
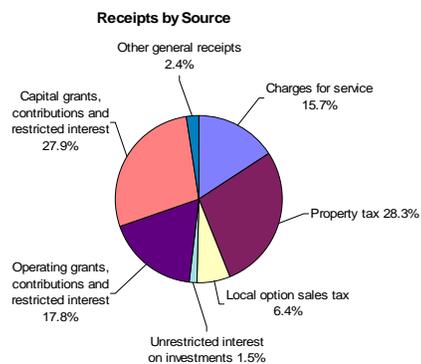
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for electric, sewer and water utility operations. The Electric and Sewer Funds are considered to be major funds of the City.

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 City's cash balance for governmental activities increased from a year ago, increasing from \$320,247 to \$648,586. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2006
Receipts:	
Program receipts:	
Charges for service	\$ 197,145
Operating grants, contributions and restricted interest	223,963
Capital grants, contributions and restricted interest	350,288
General receipts:	
Property tax	357,154
Local option sales tax	80,927
Unrestricted interest on investments	18,322
Other general receipts	29,963
Total receipts	<u>1,257,762</u>
Disbursements and transfers:	
Public safety	269,071
Public works	164,390
Culture and recreation	193,456
Community and economic development	871
General government	124,830
Debt service	90,855
Capital projects	81,890
Transfers, net	4,060
Total disbursements and transfers	<u>929,423</u>
Increase in cash basis net assets	328,339
Cash basis net assets beginning of year	<u>320,247</u>
Cash basis net assets end of year	<u>\$ 648,586</u>



Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2006
Receipts and transfers:	
Program receipts:	
Charges for service:	
Electric	\$ 876,808
Sewer	200,571
Water	98,713
Operating grants, contributions, and restricted interest	10,371
Capital grants, contributions and restricted interest	87,848
General receipts:	
Bond proceeds	689,442
Transfers, net	4,060
Total receipts and transfers	<u>1,967,813</u>
Disbursements:	
Electric	796,859
Sewer	877,681
Water	164,025
Total disbursements	<u>1,838,565</u>
Increase in cash basis net assets	129,248
Cash basis net assets beginning of year	<u>835,565</u>
Cash basis net assets end of year	<u>\$ 964,813</u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$835,565 to \$964,813. The increase is due to an increase electric rates and bond proceeds in the Sewer Fund.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Strawberry Point completed the year, its governmental funds reported a combined fund balance of \$648,586, an increase of more than \$328,000 above last year's total of \$320,247. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$4,406 over the prior year to a year-end balance of \$130,488.
- The Special Revenue, Road Use Tax Fund cash balance increased \$22,054 to \$89,212 during the fiscal year. This change was attributable to an increase in road use tax allocations received and a decrease in total operating disbursements.
- The Special Revenue, Local Option Sales Tax Fund cash balance increased \$52,277 to \$84,290 during the fiscal year, primarily due to a decrease in disbursements due to a change in the purpose of the local option sales tax ballot.
- The Debt Service Fund cash balance decreased \$24,633 to \$102,716 during the fiscal year. The change was primarily due to an increase in debt service payments which exceeded receipts.

- The Capital Projects Fund cash balance increased \$217,526 during the fiscal year due to the City receiving a grant and special assessments for the streetscape project which was mostly paid for in FY2005.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance increased \$83,913 to a year-end balance of \$472,614. This increase was due primarily to an increase in electric rates during FY2006.
- The Sewer Fund cash balance increased \$104,286 to a year-end balance of \$396,953. The increase was due primarily to an increase in operating receipts over operating disbursements and bond proceeds for the sewer rehabilitation plant.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City did not amend the budget.

Actual intergovernmental receipts were less than budgeted due to not receiving anticipated special assessments. Actual charges for service were less than the amount budgeted due to only a partial year for the rate increases.

The capital projects disbursements were less than the amount budgeted due to the majority of the disbursements for the streetscape project being made in FY2005. The actual amount of business type activities was less than the amount budgeted due to the majority of the work on the sewer project being completed in FY2007.

DEBT ADMINISTRATION

At June 30, 2006, the City had \$2,389,618 in long-term and interim financing debt outstanding, compared to \$1,829,932 last year. The chart below segregates the City’s debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2006	2005
General obligation notes	\$ 630,000	680,000
Revenue notes/bonds	1,749,442	1,130,000
Installment purchase agreement	10,176	19,932
Total	\$ 2,389,618	1,829,932

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City’s corporate limits. The City’s outstanding general obligation debt is \$640,176, below its constitutional debt limit of approximately \$1,894,159.

ECONOMIC FACTORS AND NEXT YEAR’S BUDGET AND RATES

The City of Strawberry Point’s elected and appointed officials and citizens considered many factors when setting the fiscal year 2007 budget, tax rates and fees charged for various City activities. The City’s FY2007 assessed taxable value has decreased 1.76%, or \$389,862, from the FY 2006 level.

The FY2007 budget contains receipts of \$3,085,703 and disbursements of \$3,170,807. This budget is considerably lower than the FY2006 budget which contained total receipts of \$3,321,223 and disbursements of \$4,873,340. The FY2007 budget included approximately \$307,109 less total receipts for charges for service.

The FY2007 levy is \$13.95 per \$1,000 of taxable valuation, a decrease of \$0.81 per \$1,000 of taxable valuation from FY2006. The debt service levy decreased from \$2.87 per \$1,000 of taxable valuation for FY2006 to \$1.17 per \$1,000 of taxable valuation for FY2007.

These parameters were taken into account when adopting the budget for FY2007.

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 Deanna Dement, City Clerk, 111 Commercial Street, Strawberry Point, Iowa 52076.

Basic Financial Statements

City of Strawberry Point

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2006

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 269,071	87,145	52,116	10,142
Public works	164,390	64,650	116,699	-
Culture and recreation	193,456	43,750	50,232	-
Community and economic development	871	70	-	18,878
General government	124,830	1,530	4,916	-
Debt service	90,855	-	-	-
Capital projects	81,890	-	-	321,268
Total governmental activities	925,363	197,145	223,963	350,288
Business type activities:				
Electric	796,859	876,808	3,964	-
Sewer	877,681	200,571	3,378	87,848
Water	164,025	98,713	3,029	-
Total business type activities	1,838,565	1,176,092	10,371	87,848
Total	\$ 2,763,928	1,373,237	234,334	438,136

General Receipts:

Property and other city tax levied for:
General purposes
Debt service
Local option sales tax
Unrestricted interest on investments
Bond proceeds
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
Local option sales tax
Debt service
Capital projects
Other purposes
Unrestricted

Total cash basis net assets

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(119,668)	-	(119,668)
16,959	-	16,959
(99,474)	-	(99,474)
18,077	-	18,077
(118,384)	-	(118,384)
(90,855)	-	(90,855)
239,378	-	239,378
(153,967)	-	(153,967)
-	83,913	83,913
-	(585,884)	(585,884)
-	(62,283)	(62,283)
-	(564,254)	(564,254)
(153,967)	(564,254)	(718,221)
295,300	-	295,300
61,854	-	61,854
80,927	-	80,927
18,322	-	18,322
-	689,442	689,442
29,963	-	29,963
(4,060)	4,060	-
482,306	693,502	1,175,808
328,339	129,248	457,587
320,247	835,565	1,155,812
\$ 648,586	964,813	1,613,399
\$ 89,212	-	89,212
84,290	-	84,290
102,716	110,750	213,466
80,580	-	80,580
161,300	-	161,300
130,488	854,063	984,551
\$ 648,586	964,813	1,613,399

City of Strawberry Point

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

As of and for the year ended June 30, 2006

	Special Revenue		
	General	Road Use Tax	Local Option Sales Tax
Receipts:			
Property tax	\$ 200,380	-	-
Other city tax	52,432	-	80,927
Licenses and permits	2,410	-	-
Use of money and property	45,504	-	-
Intergovernmental	28,232	116,718	-
Charges for service	158,709	-	-
Special assessments	-	-	-
Miscellaneous	37,832	-	-
Total receipts	<u>525,499</u>	<u>116,718</u>	<u>80,927</u>
Disbursements:			
Operating:			
Public safety	222,327	-	-
Public works	65,203	94,664	-
Culture and recreation	170,311	-	-
Community and economic development	724	-	-
General government	90,058	-	22,826
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	<u>548,623</u>	<u>94,664</u>	<u>22,826</u>
Excess (deficiency) of receipts over (under) disbursements	(23,124)	22,054	58,101
Other financing sources (uses):			
Operating transfers in	32,480	-	-
Operating transfers out	(4,950)	-	(5,824)
Total other financing sources (uses)	<u>27,530</u>	<u>-</u>	<u>(5,824)</u>
Net change in cash balances	4,406	22,054	52,277
Cash balances beginning of year	126,082	67,158	32,013
Cash balances end of year	<u>\$ 130,488</u>	<u>89,212</u>	<u>84,290</u>
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
Designated for equipment	73,801	-	-
Undesignated, reported in:			
General fund	56,687	-	-
Special revenue funds	-	89,212	84,290
Capital projects fund	-	-	-
Total cash basis fund balances	<u>\$ 130,488</u>	<u>89,212</u>	<u>84,290</u>

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
61,854	-	42,488	304,722
-	-	-	133,359
-	-	-	2,410
-	217	3,093	48,814
-	205,000	-	349,950
-	-	1,700	160,409
-	111,051	-	111,051
-	14,900	94,315	147,047
61,854	331,168	141,596	1,257,762
-	-	46,744	269,071
-	-	4,523	164,390
-	-	23,145	193,456
-	-	147	871
-	-	11,946	124,830
90,855	-	-	90,855
-	81,890	-	81,890
90,855	81,890	86,505	925,363
(29,001)	249,278	55,091	332,399
4,368	-	1,618	38,466
-	(31,752)	-	(42,526)
4,368	(31,752)	1,618	(4,060)
(24,633)	217,526	56,709	328,339
127,349	(136,946)	104,591	320,247
102,716	80,580	161,300	648,586
102,716	-	-	102,716
-	-	-	73,801
-	-	-	56,687
-	-	161,300	334,802
-	80,580	-	80,580
102,716	80,580	161,300	648,586

Exhibit C

City of Strawberry Point

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

As of and for the year ended June 30, 2006

	Enterprise			Total
	Electric	Sewer	Nonmajor Water	
Operating receipts:				
Charges for service	\$ 876,808	200,571	98,713	1,176,092
Operating disbursements:				
Business type activities	669,119	129,186	164,025	962,330
Excess (deficiency) of operating receipts over (under) operating disbursements	207,689	71,385	(65,312)	213,762
Non-operating receipts (disbursements):				
Interest on investments	3,964	3,378	3,029	10,371
Bond proceeds	-	689,442	-	689,442
CDBG grant	-	87,848	-	87,848
Sewer capital project	-	(744,391)	-	(744,391)
Debt service	(127,740)	(4,104)	-	(131,844)
Total non-operating receipts (disbursements)	(123,776)	32,173	3,029	(88,574)
Excess (deficiency) of receipts over (under) disbursements	83,913	103,558	(62,283)	125,188
Operating transfers in	-	728	3,332	4,060
Net change in cash balances	83,913	104,286	(58,951)	129,248
Cash balances beginning of year	388,701	292,667	154,197	835,565
Cash balances end of year	\$ 472,614	396,953	95,246	964,813
Cash Basis Fund Balances				
Reserved for debt service	\$ 110,750	-	-	110,750
Unreserved:				
Designated for equipment	18,573	109,247	17,820	145,640
Undesignated	343,291	287,706	77,426	708,423
Total cash basis fund balances	\$ 472,614	396,953	95,246	964,813

See notes to financial statements.

City of Strawberry Point

Notes to Financial Statements

June 30, 2006

(1) Summary of Significant Accounting Policies

The City of Strawberry Point is a political subdivision of the State of Iowa located in Clayton 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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water, sewer and electric utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Strawberry Point 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 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: Clayton County Assessor's Conference Board, Clayton County Emergency Management Commission and Clayton County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - 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 service.

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 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 – 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 and enterprise funds are aggregated and reported as nonmajor governmental and enterprise funds.

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 not paid from other funds.

Special Revenue:

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

The Local Option Sales Tax Fund is used to account for local option sales tax received and its uses.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Strawberry Point 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions.

(2) Cash and Pooled Investments

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

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation notes, revenue bonds/notes and installment purchase agreement are as follows:

Year Ending June 30,	General Obligation				Installment Purchase		Total	
	Notes		Revenue Bonds/Notes		Agreement			
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2007	\$ 85,000	24,401	75,000	54,011	10,176	438	170,176	78,850
2008	80,000	21,516	75,000	50,378	-	-	155,000	71,894
2009	80,000	18,656	80,000	46,703	-	-	160,000	65,359
2010	65,000	15,636	85,000	42,703	-	-	150,000	58,339
2011	60,000	13,120	745,000	38,368	-	-	805,000	51,488
2012 - 2016	260,000	30,868	-	-	-	-	260,000	30,868
Total	\$ 630,000	124,197	1,060,000	232,163	10,176	438	1,700,176	356,798

Electric Revenue Notes - The resolution providing for the issuance of the electric revenue notes includes the following provisions.

- (a) Sufficient monthly transfers shall be made to an electric revenue note sinking account for the purpose of making the note principal and interest payments when due.
- (b) Additional monthly transfers shall be made to an electric reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying principal at maturity or interest on the notes when there are insufficient funds in the sewer revenue note sinking account.
- (c) In addition, monthly transfers of \$1,600 shall be made in an improvement and extension account until a minimum balance of \$100,000 has been accumulated. This account is established for the purpose of paying for additional improvements, extensions or repairs to the system when the sinking account has insufficient funds.

The City has not established the required sinking, reserve and improvement accounts for the electric revenue notes.

Sewer Revenue Bonds - On February 7, 2006, the City entered into a State Revolving Fund loan and disbursement agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. (Trustee) for the issuance of \$1,500,000 of sewer revenue bonds with interest at 3.0% per annum. The bonds were issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. The City will draw down funds from the Trustee upon request to reimburse the City for costs as they are incurred. At June 30, 2006, the City had drawn \$689,442, including a \$15,000 initiation fee, of the \$1,500,000 authorized. Wells Fargo Bank Iowa, N.A., has the remaining balance of \$810,558 held in trust, which the City will request as the project progresses. A formal repayment schedule has not yet been adopted.

The resolution providing for the issuance of the sewer revenue bonds includes 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 fund.

- b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account for the purpose of making principal and interest payments when due.

The City has not established the required sinking account for the sewer revenue bonds.

Installment Purchase Agreement - The City has entered into an installment purchase agreement to purchase a tractor. The agreement, which bears interest at 4.3% per annum, is scheduled for final payment during the year ending June 30, 2007.

(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2006 was \$21,297, equal to the required contribution for the year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation, sick leave and compensatory time 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, sick leave and compensatory time payments payable to employees at June 30, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 7,000
Sick leave	10,000
Compensatory time	<u>2,000</u>
Total	<u>\$ 19,000</u>

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

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue:	
	Local Option Sales Tax	\$ 728
	Capital Projects	31,752
		<u>32,480</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	4,368
Special Revenue:		
Library Capital Improvement	General	1,618
Enterprise:	Special Revenue:	
Sewer	Local Option Sales Tax	728
Enterprise:		
Water	General	<u>3,332</u>
Total		<u>\$ 42,526</u>

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

(7) Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations by function. During the year ended June 30, 2006, disbursements in the public safety, public works, culture and recreation and general government functions exceeded the amounts budgeted.

(8) Construction Commitments

Construction commitments at June 30, 2006 totaled \$1,084,432 which will be paid as work on the wastewater and sewer treatment plant progresses. These projects will be funded through debt issues, grants and local funds.

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$25,068 during the year ended June 30, 2006.

(10) Risk Management

The City 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.

(11) Accounting Change

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2006. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

(12) Litigation

The City is subject to pending litigation. The probability of loss, if any, is undeterminable.

(13) Forgivable Loans

The City made interest free forgivable loans to borrowers (citizens) to finance a portion of the cost of the acquisition or rehabilitation of the borrower’s primary residence for five years. At the end of the five years, the loan will be forgiven if the borrower’s primary residence is not sold, rented or transferred. At June 30, 2006, the City has 13 forgivable loans outstanding, totaling \$357,949.

City of Strawberry Point

Required Supplementary Information

City of Strawberry Point
 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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	\$ 304,722	-
Other city tax	133,359	-
Licenses and permits	2,410	-
Use of money and property	48,814	10,371
Intergovernmental	349,950	87,848
Charges for service	160,409	1,176,092
Special assessments	111,051	-
Miscellaneous	147,047	-
Total receipts	1,257,762	1,274,311
Disbursements:		
Public safety	269,071	-
Public works	164,390	-
Culture and recreation	193,456	-
Community and economic development	871	-
General government	124,830	-
Debt service	90,855	-
Capital projects	81,890	-
Business type activities	-	1,838,565
Total disbursements	925,363	1,838,565
Excess (deficiency) of receipts over (under) disbursements	332,399	(564,254)
Other financing sources (uses)	(4,060)	693,502
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	328,339	129,248
Balances beginning of year	320,247	835,565
Balances end of year	\$ 648,586	964,813

See accompanying independent auditor's report.

Total	Budgeted Amounts	Final to Total Variance
	Original and Final	
304,722	317,777	(13,055)
133,359	91,134	42,225
2,410	3,200	(790)
59,185	58,619	566
437,798	999,224	(561,426)
1,336,501	1,836,269	(499,768)
111,051	-	111,051
147,047	15,000	132,047
<u>2,532,073</u>	<u>3,321,223</u>	<u>(789,150)</u>
269,071	252,518	(16,553)
164,390	163,523	(867)
193,456	165,169	(28,287)
871	8,600	7,729
124,830	109,829	(15,001)
90,855	92,578	1,723
81,890	884,000	802,110
1,838,565	3,197,123	1,358,558
<u>2,763,928</u>	<u>4,873,340</u>	<u>2,109,412</u>
(231,855)	(1,552,117)	1,320,262
<u>689,442</u>	<u>2,025,500</u>	<u>(1,336,058)</u>
457,587	473,383	(15,796)
1,155,812	1,502,600	(346,788)
<u>1,613,399</u>	<u>1,975,983</u>	<u>(362,584)</u>

City of Strawberry Point

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there were no budget amendments.

During the year ended June 30, 2006, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions.

Other Supplementary Information

City of Strawberry Point
Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2006

	Employee Benefits	Munter Trust	Library Capital Improvement	Special Fire Department Tanker
Receipts:				
Property tax	\$ 42,488	-	-	-
Use of money and property	1,558	450	-	-
Charges for service	-	-	-	1,700
Miscellaneous	618	46,330	-	2,300
Total receipts	44,664	46,780	-	4,000
Disbursements:				
Operating:				
Public safety	36,564	-	-	-
Public works	4,523	-	-	-
Culture and recreation	12,982	800	1,997	-
Community and economic development	-	-	-	-
General government	11,946	-	-	-
Total disbursements	66,015	800	1,997	-
Excess (deficiency) of receipts over (under) disbursements	(21,351)	45,980	(1,997)	4,000
Other financing sources:				
Operating transfers in	-	-	1,618	-
Net change in cash balances	(21,351)	45,980	(379)	4,000
Cash balances beginning of year	37,616	19,151	8,104	950
Cash balances end of year	\$ 16,265	65,131	7,725	4,950
Cash Basis Fund Balances				
Unreserved:				
Special revenue funds	\$ 16,265	65,131	7,725	4,950

See accompanying independent auditor's report.

Revenue									
Swimming Pool	Millard Library	Library Hartley Howe	Tree Board	Ambulance	Civic Center	Housing Rehabilitation	Firemen's Association	Total	
-	-	-	-	-	-	-	-	-	42,488
-	8	72	1,000	-	5	-	-	-	3,093
-	-	-	-	-	-	-	-	-	1,700
-	-	-	-	12,765	1,935	18,878	11,489	-	94,315
-	8	72	1,000	12,765	1,940	18,878	11,489	-	141,596
-	-	-	-	196	-	-	9,984	-	46,744
-	-	-	-	-	-	-	-	-	4,523
1,294	-	-	472	-	5,600	-	-	-	23,145
-	-	-	-	-	-	147	-	-	147
-	-	-	-	-	-	-	-	-	11,946
1,294	-	-	472	196	5,600	147	9,984	-	86,505
(1,294)	8	72	528	12,569	(3,660)	18,731	1,505	-	55,091
-	-	-	-	-	-	-	-	-	1,618
(1,294)	8	72	528	12,569	(3,660)	18,731	1,505	-	56,709
1,294	261	2,249	1,872	7,550	7,667	10,541	7,336	-	104,591
-	269	2,321	2,400	20,119	4,007	29,272	8,841	-	161,300
-	269	2,321	2,400	20,119	4,007	29,272	8,841	-	161,300

City of Strawberry Point
Schedule of Indebtedness
Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates
General obligation capital loan notes:		
Civic center improvement and refunding	Nov 1, 2002	2.25-4.60%
Streetscapes	Mar 15, 2005	3.10-4.25
Total		
Revenue notes:		
Electric	Jun 1, 2001	4.35-5.15%
Revenue bonds:		
Sewer	Feb 7, 2006	3.00%
Installment purchase agreement:		
Tractor	Mar 15, 2004	4.30%

See accompanying independent auditor's report.

Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
\$ 380,000	255,000	-	50,000	205,000	9,985
425,000	425,000	-	-	425,000	19,457
	<u>\$ 680,000</u>	<u>-</u>	<u>50,000</u>	<u>630,000</u>	<u>29,442</u>
\$ 1,380,000	<u>1,130,000</u>	<u>-</u>	<u>70,000</u>	<u>1,060,000</u>	<u>57,340</u>
\$ 1,500,000	<u>-</u>	<u>689,442</u>	<u>-</u>	<u>689,442</u>	<u>2,989</u>
\$ 60,599	<u>19,932</u>	<u>-</u>	<u>9,756</u>	<u>10,176</u>	<u>857</u>

Schedule 3

City of Strawberry Point

Note Maturities

June 30, 2006

Year Ending June 30,	General Obligation Notes						Total
	Civic Center Improvement and Refunding Notes			Corporate Purpose			
	Issued Nov 1, 2002			Issued Mar 15, 2005			
	Interest Rates	Amount		Interest Rates	Amount		
2007	3.60%	\$ 50,000		3.10%	\$ 35,000	85,000	
2008	3.85	40,000		3.30	40,000	80,000	
2009	4.10	40,000		3.45	40,000	80,000	
2010	4.30	25,000		3.60	40,000	65,000	
2011	4.50	20,000		3.75	40,000	60,000	
2012	4.60	30,000		3.85	40,000	70,000	
2013		-		3.95	45,000	45,000	
2014		-		4.05	45,000	45,000	
2015		-		4.15	50,000	50,000	
2016		-		4.25	50,000	50,000	
Total		\$ 205,000			\$ 425,000	630,000	

Year Ending June 30,	Electric Revenue Notes		
	Issued June 1, 2001		
	Interest Rates	Amount	
2007	4.85%	\$ 75,000	
2008	4.90	75,000	
2009	5.00	80,000	
2010	5.10	85,000	
2011	5.15	745,000	
Total		\$ 1,060,000	

See accompanying independent auditor's report.

City of Strawberry Point
 Schedule of Expenditures of Federal Awards
 Year ended June 30, 2006

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Housing and Urban Development:			
Iowa Department of Economic Development:			
Community Development Block Grants/ State's Program	14.228		\$ 114,696
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water -State Revolving Fund	66.458		574,535
Total			<u>\$ 689,231</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Strawberry Point and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

City of Strawberry Point



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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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 Strawberry Point, Iowa, as of and for the year ended June 30, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated March 6, 2007. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2005. Except as noted in the Independent Auditor's Report, 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 Strawberry Point'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 Strawberry Point'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 II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe items II-A-06 and II-G-06 are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Strawberry Point'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 IV of the accompanying Schedule of Findings and Questioned Costs.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Strawberry Point and other parties to whom the City of Strawberry Point 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 Strawberry Point 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2007

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Strawberry Point



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Strawberry Point, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2006. The City of Strawberry Point's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Strawberry Point's management. Our responsibility is to express an opinion on the City of Strawberry Point's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on the major federal programs occurred. An audit includes examining, on a test basis, evidence about the City of Strawberry Point's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Strawberry Point's compliance with those requirements.

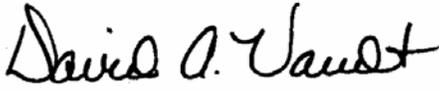
In our opinion, the City of Strawberry Point complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2006.

Internal Control Over Compliance

The management of the City of Strawberry Point is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Strawberry Point's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a 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 non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

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 Strawberry Point and other parties to whom the City of Strawberry Point 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

March 6, 2007

City of Strawberry Point
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part I: Summary of the Independent Auditor's Results:

- (a) Qualified opinions were 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 U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit did not disclose audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 – Capitalization Grants for Clean Water – State Revolving Fund.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Strawberry Point did not qualify as a low-risk auditee.

City of Strawberry Point
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Findings Related to the Financial Statements:

REPORTABLE CONDITIONS:

II-A-06 Segregation of Duties – One important element in designing internal control to safeguard assets and reasonably ensure the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated, the activities of one employee act as a check of those of another. One person has control over each of the following areas:

City

- (1) Accounting system – performing all general accounting functions and having custody of assets.
- (2) Cash – handling petty cash, reconciling and depositing.
- (3) Investments – investing, recording and custody.
- (4) Long-term debt – recording, reconciling and performing cash functions.
- (5) Receipts – receiving, recording and custody.
- (6) Utility receipts – billing, collecting, depositing and posting.
- (7) Disbursements – purchasing, preparing checks and recording.
- (8) Payroll – preparing and distributing.

Fire Department

- (1) Receipts – receiving, recording and custody.
- (2) Disbursements – purchasing, preparing checks and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City and Fire Department should review their control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response –

City – We realize this was a problem due to small office size. As a result, procedures have been implemented to minimize the affect. Currently, all checks require two signatures. One of us opens mail and records the receipts the other one reviews the receipts and codes the receipts. City Clerk reviewed utility billing, collection and posting.

Fire Department – We realize this has been a potential problem in the past. We have implemented two new positions to help with the segregation of duties.

Conclusion – Response accepted.

City of Strawberry Point

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

II-B-06 Accounting Policies and Procedures Manual – The City does not have an accounting and Procedures Manual.

Recommendation – An accounting policies and procedures manual should be developed to provide the following benefits.

- (1) Aid in training additional or replacement personnel and act as a quick reference for staff members and officials.
- (2) Help streamline accounting operations by achieving uniformity in accounting and in the application of policies and procedures.
- (3) Save supervisory time by recording decisions so they will not have to be made each time the same, or similar, situation arises.
- (4) Help preserve the key elements in the government's internal control.
- (5) Increase effectiveness and efficiency.

Response – An accounting policy and procedures manual will be developed and implemented to increase effectiveness and efficiency.

Conclusion – Response accepted.

II-C-06 Credit Cards – The City has a credit card for use by the police chief while on City business. The City has not adopted a formal policy to regulate the use of credit cards and to establish procedures for proper accounting of credit card charges.

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.

Response – A formal credit card policy will be implemented to specify who controls the card, who can use the card and for what purposes the card can be used and what kinds of supporting documents are required.

Conclusion – Response accepted.

II-D-06 Information System – The following weaknesses in the City's information system were noted:

The City does not have written policies for:

- (1) Requiring password changes because software does not require the user to change logins/passwords periodically.
- (2) Requiring a timeout and/or logoff function or a screensaver password to protect a terminal if left unattended.
- (3) Restricting access to office computers.
- (4) Use of internet.
- (5) Disaster recovery plan.

City of Strawberry Point

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s controls over information systems.

Response – Will contact our software company and see if we can require password changes. We will change settings on computers to lock screen if left unattended for a period of time. Will require computers to be locked when gone to lunch and end of day. An Internet Policy and a Disaster Recovery Plan will be developed and adopted.

Conclusion – Response accepted.

- II-E-06 Records of Accounts – The City maintains separate bank accounts for the Strawberry Point Firemen’s Association. The financial transactions and the resulting balances were not entirely included in the City’s accounting records and were not included in the City’s annual budget or monthly financial reports. However, those financial transactions and the resulting balances are included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, “A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose.” For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – Currently, the City receives monthly financial reports from the Firemen’s Association. The City will contact the Firemen’s Association on incorporating the Association into the budget.

Conclusion – Response accepted.

- II-F-06 Records of Investments – A detailed record of investment transactions was not maintained.

Recommendation – A detailed record of investment transactions by fund should be maintained. This record should include investment number, purchase date, redemption date, interest rate and amount of principal and interest received.

Response – City Clerk will develop a spreadsheet to keep a detailed record of all investment transactions which will include the above information.

Conclusion – Response accepted.

- II-G-06 Reconciliation of Utility Billings, Collections, and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

The City does not have written policies and procedures for delinquent accounts and write-off procedures.

City of Strawberry Point

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or Council-designated independent person should review the reconciliations and monitor delinquencies.

The City should implement written policies and procedures for delinquent accounts and write-off procedures.

Response – Currently, there is a reconciliation process in place for billing and collections. This reconciliation also verifies deposits to collections. The delinquent balance that was referred to is the balance on the 21st or 22nd of the month. Our actual delinquent amount is only 5-6% of our total. Deputy City Clerk will send letters and will either send to collections or garnish wages to minimize this amount. She will also keep a close eye on the amount of our past due accounts. There will be a policy adopted on the actual procedures for delinquent accounts.

We will establish written procedures for both delinquent accounts and write-offs.

Conclusion – Response accepted.

II-H-06 Safeguarding of Checks – Unused checks and voided checks are not properly safeguarded.

Recommendation – The City should develop controls to ensure unused and voided checks are properly safeguarded in a secure location.

Response – Unused checks and voided checks are now properly secured.

Conclusion – Response accepted.

II-I-06 Disbursements – Certain disbursements only included one signature on the check. Also, certain disbursements were not supported by an invoice or other supporting documentation.

Recommendation – The City should ensure all checks are signed by two individuals for proper control procedures. Also, the City should retain all invoices and supporting documentation to provide proper control.

Response – Currently, all checks will be reviewed to make sure there are two signatures. Currently, procedures exist to ensure every claim that is paid will include a copy of the invoice being paid and the check stub will be attached to it.

Conclusion – Response accepted.

II-J-06 Firemen's Association – Prenumbered receipts were not issued for all collections.

Recommendation – Prenumbered receipts should be issued at the time of collection to provide additional control over the proper collection and recording of all money. The receipts should be recorded and reconciled with timely deposits and the reconciliation should be reviewed periodically by an independent person.

City of Strawberry Point
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Response – We do not think prenumbered receipts are necessary.

Conclusion – Response acknowledged. However, prenumbered receipts should be issued to provide control over collections.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Strawberry Point
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major program was noted.

City of Strawberry Point

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Other Findings Related to Required Statutory Reporting:

IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public safety, public works, culture and recreation and general government functions. Chapter 384.20 of the Code of Iowa states, in part “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.

Response – The City Clerk will carefully review the budget and the fund balances prior to submitting an expense to be paid. If disbursements are going to cause the fund to be over budget, then a budget amendment will be done.

Conclusion – Response accepted.

IV-B-06 Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted

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

IV-D-06 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

<u>Name, Title and Business Connection</u>	<u>Transaction Description</u>	<u>Amount</u>
Lois Cordes, Librarian, Son owns Cordes & Cordes Oil Co.	Fuel for electric generator	\$ 24,661
Dale Fox, Council Member, Owner of Strawberry Computing	Purchase of computer equipment	407

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to a represent conflict of interest since total transactions with this individual were less than \$2,500 during the fiscal year.

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Librarian’s son may represent a conflict of interest since the total transactions with this individual were greater than \$2,500 during the fiscal year.

Recommendation – The City should consult legal counsel to determine the disposition of this matter.

City of Strawberry Point

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Response – The Council is aware of this situation and is ok with it. It is the most economical place to purchase fuel in the City and it would be not economical to purchase fuel out of town. We receive a fair price for the fuel.

Conclusion – Response acknowledged. However, the City should consult legal counsel to determine the disposition of this matter.

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

IV-F-06 Council Minutes – Except as noted, no transactions were found that we believe should have been approved in the Council minutes, but were not.

Although the Council approved some transfers, the amount of the transfers, as well as the purpose, was not documented in the minutes. Also, certain transfers were not approved in the minutes.

Certain proofs of publications could not be located.

Certain disbursements were not approved by the City Council prior to payment.

The City Council has not approved a written mileage policy for reimbursements to City employees.

Recommendation – The Council should ensure all transfers are approved through the certified budget, resolutions or minutes record. Also, the City should properly retain proofs of publications. In addition, the City should ensure all disbursements are approved by the Council prior to disbursement and a written mileage policy should be adopted by the Council.

Response – Will make sure all transfers are approved by Council. Will make sure all proof of publications are filed in a binder by date. Will develop a mileage policy with Council approval. All disbursements should be approved by City Council prior to payment with the exception of utility disbursements, which can be approved prior by City Clerk per resolution adopted.

Conclusion – Response accepted.

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

IV-H-06 Electric Revenue Notes – The City has not established the sinking, reserve and improvement accounts which are required by the note resolution.

Recommendation – The City should establish the required accounts and make the necessary transfers as required by the note resolution.

Response – Currently, this has been done. An electric reserve and improvement fund have been established with the appropriate amounts.

Conclusion – Response accepted.

City of Strawberry Point

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-I-06 Sewer Revenue Bonds – The City has not established the sinking account which are required by the bond resolution.

Recommendation – The City should establish the required accounts and make the necessary transfers as required by the bond resolution.

Response – Currently this is done. A sinking account has been established required by the note resolution.

Conclusion – Response accepted.

IV-J-06 Proof of Publications – A proof of publication relating to the notice of hearing, hearing date, publication date of notice of bid filing or letting and date of letting for a capital project could not be located.

Recommendation – The City should maintain records for proof of publications in order to determine the City is in compliance with the Code of Iowa.

Response – All proof of publications will be filed in a binder by date for easy reference.

Conclusion – Response accepted.

IV-K-06 Unclaimed Property – The City has not reported unclaimed property to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Recommendation – The City should report unclaimed property to the Treasurer of State as required by Chapter 556.11 of the Code of Iowa.

Response – City is looking into this. In the future, the City will make sure to remit outstanding checks over two years old each November.

Conclusion – Response accepted.

IV-L-06 Local Option Sales Tax – The ballot for the local option sales tax authorizes the City to collect the tax and to allocate 33 1/3 % of the collections to economic development and tourism office and 66 2/3% for repairs, maintenance, improvements to streets, sewer system, water system and/or general obligation debt. The City does not maintain adequate records to document the proper expenditure of local option sales tax for the authorized uses.

Recommendation – The City should establish procedures to accumulate and document local option sales tax disbursements to demonstrate compliance with ballot requirements.

Response – We agree with the recommendation. We will set up a fund for each purpose separately.

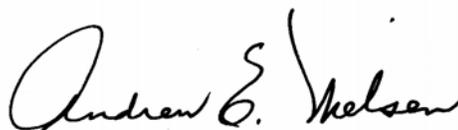
Conclusion – Response accepted.

City of Strawberry Point

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Billie Jo Heth, Senior Auditor
Tracy L. Haronik, Staff Auditor
Jeffrey L. Lenhart, Staff Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and a distinct "E".

Andrew E. Nielsen, CPA
Deputy Auditor of State