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, 2006

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City of Stratford, Iowa

Officials

Name	Title	Term Expires
	(Before January 2006)	
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
	(After January 2006)	
Mike Nepereny	Mayor	Jan 2010
Rick Woodard	Mayor Pro Tem	Jan 2008
Jerry Janney	Council Member	Jan 2008
Mark Doud	Council Member	Jan 2010
Robert Hudson	Council Member	Jan 2010
Julie Ehrsemann	Council Member	Jan 2010
Corinne Anderson	Manager/Treasurer	Resigned
Travis A Cooke	Manager/Treasurer	Indefinite
F.D. Chip Baltimore II	Attorney	Resigned
Alan C. Schroeder	Attorney	Indefinite

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, 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 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, 2006, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 24, 2007 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 three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements, which are prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, 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.L.C.
Certified Public Accountants

January 24, 2007

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased approximately $35,000 or 8% from fiscal 2005 to fiscal 2006.
- Disbursements decreased approximately $187,000 or 23% from fiscal 2005 to fiscal 2006. This is mainly due to the pool renovation project being completed.
- The City's total cash basis net assets decreased $187,000 from June 30, 2005 to June 30, 2006. Of this amount, the assets of the governmental activities decreased $199,000 and the and the assets of the business type activities increased $12,000.

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

	Year ended June 30,	
	2006	2005
Receipts and transfers:		
Program receipts:		
Charges for service	$ 25,737	28,501
Operating grants, contributions and restricted interest	74,508	82,079
Capital grants, contributions and restricted interest	-	796
General receipts:		
Property tax	226,174	212,071
Local option sales tax	50,439	47,897
Unrestricted interest on investments	35,588	16,903
Other general receipts	22,600	11,854
Transfers, net	5,625	107,500
Total receipts and transfers	440,671	507,601

	Year ended June 30, 2006	2005
Disbursements:		
Public safety	80,342	76,195
Public works	77,875	69,353
Health and social services	1,110	3,324
Culture and recreation	102,864	71,218
Community and economic development	52,469	13,198
General government	109,257	81,888
Debt service	101,867	77,247
Capital projects	114,723	435,196
Total disbursements	640,507	827,619
Increase(decrease) in cash basis net assets	(199,836)	(320,018)
Cash basis net assets beginning of year	370,047	690,065
Cash basis net assets end of year	$ 170,211	370,047

The significant decrease in disbursements was primarily the result of the completion of the pool renovation project.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30, 2006	2005
Receipts:		
Program receipts:		
Charges for services:		
Water	$ 74,479	73,201
Electric	565,492	519,470
Garbage and landfill	77,335	76,732
Sewer	41,839	43,292
Miscellaneous	10,263	5,397
Total receipts	769,408	718,092
Disbursements and transfers:		
Water	66,470	75,890
Electric	545,137	443,536
Garbage and landfill	82,460	73,064
Sewer	57,706	52,694
Transfers	5,625	107,500
Total disbursements and transfers	757,398	752,684
Increase (decrease) in cash balance	12,010	(34,592)
Cash basis net assets beginning of year	713,984	748,576
Cash basis net assets end of year	$ 725,994	713,984

INDIVIDUAL MAJOR FUND ANALYSIS

The general, road use, electric and garbage and landfill cash balances showed marginal changes in cash balances.

The TIF fund cash balance showed a decrease of approximately $77,000, due to some bonds being paid off early.

The pool renovation fund cash balance decreased by $73,000 due to the construction of the new pool.

BUDGETARY HIGHLIGHTS

The City did not amend its budget this past year, but should have. The City will amend in the future if needed.

DEBT ADMINISTRATION

At June 30, 2006, the City had approximately $600,560 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 2007 budget, tax rates and fees that will be charged for various city activities. One of the major factors taken into account was the need for capital equipment upgrades for the electric utility including the purchase of a new electric truck, carryover distribution repairs from the November 2005 tornado, and the wholesale cost of bulk power. The City has addressed water distribution and quality concerns through a comprehensive water study and multi-phase water utility improvement plan. Future fee increases in the water and sewer utilities will be necessary to maintain solvency.

Other factors taken into account when setting the budget included major principal payments of accumulated tax increment financing funds toward the Athens Woods TIF bond. The bond is now projected to be paid in full at the close of fiscal year 2008, four years ahead of the debt service schedule at a significant savings in interest

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, 2006

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	$ 80,342	610	11,422	-
Public works	77,875	9,864	53,139	-
Health and social services	1,110	-	-	-
Culture and recreation	102,864	-	9,884	-
Community and economic development	52,469	15,044	-	-
General government	109,257	219	63	-
Debt service	143,357	-	-	-
Capital projects	73,233	-	-	-
Total governmental activities	640,507	25,737	74,508	-
Business type activities:				
Water	66,470	74,479	-	-
Electric	545,137	565,492	-	-
Garbage and landfill	82,460	77,335	-	-
Sewer	57,706	41,839	-	-
Total business type activities	751,773	759,145	-	-
Total	$ 1,392,280	784,882	74,508	-

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 Activities	Business Type Activities	Total
(68,310)	-	(68,310)
(14,872)	-	(14,872)
(1,110)	-	(1,110)
(92,980)	-	(92,980)
(37,425)	-	(37,425)
(108,975)	-	(108,975)
(143,357)	-	(143,357)
(73,233)	-	(73,233)
(540,262)	-	(540,262)
-	8,009	8,009
-	20,355	20,355
-	(5,125)	(5,125)
-	(15,867)	(15,867)
-	7,372	7,372
(540,262)	7,372	(532,890)
122,558	-	122,558
56,344	-	56,344
47,272	-	47,272
50,438	-	50,438
35,589	-	35,589
22,600	10,263	32,863
5,625	(5,625)	0
340,426	4,638	345,064
(199,836)	12,010	(187,826)
370,047	713,984	1,084,031
$ 170,211	725,994	896,205
(14,718)	-	(14,718)
66,986	-	66,986
(16,184)	24,333	8,149
26,622	-	26,622
107,505	701,661	809,166
$ 170,211	725,994	896,205

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, 2006

		Special Revenue	
	General	Road Use	TIF
Receipts:			
Property tax	$ 99,731	-	-
Tax increment financing collections	-	-	56,344
Other city tax	254	-	-
Licenses and permits	980	-	-
Use of money and property	37,814	-	-
Intergovernmental	22,578	62,459	-
Charges for service	15,144	-	-
Miscellaneous	17,606	-	-
Total receipts	194,107	62,459	56,344
Disbursements:			
Operating:			
Public safety	34,275	-	-
Public works	4,384	73,167	-
Health and social services	1,110	-	-
Culture and recreation	98,626	-	-
Community and economic development	6,170	-	46,299
General government	99,480	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	244,045	73,167	46,299
Excess (deficiency) of receipts over (under) disbursements	(49,938)	(10,708)	10,045
Other financing sources (uses):			
Operating transfers in	4,885	-	-
Operating transfers out	1,875	-	87,893
Total other financing sources (uses)	3,010	-	(87,893)
Net change in cash balances	(46,928)	(10,708)	(77,848)
Cash balances beginning of year	135,313	(4,010)	144,834
Cash balances end of year	$ 88,385	(14,718)	66,986
Cash Basis Fund Balances			
Reserved:			
Debt service	$ -	-	-
Unreserved:			
General fund	88,385	-	-
Special revenue funds	-	(14,718)	66,986
Capital project funds	-	-	-
Total cash basis fund balances	$ 88,385	(14,718)	66,986

See notes to financial statements.

Capital Projects Pool Renovation	Nonmajor Governmental Funds	Total
-	69,827	169,558
-	-	56,344
-	50,457	50,711
-	-	980
-	-	37,814
-	1,729	86,766
-	-	15,144
-	123	17,729
-	122,136	435,046
-	46,067	80,342
-	324	77,875
-	-	1,110
-	4,238	102,864
-	-	52,469
-	9,777	109,257
-	143,357	143,357
73,233	-	73,233
73,233	203,763	640,507
(73,233)	(81,627)	(205,461)
-	95,393	100,278
-	4,885	94,653
-	90,508	5,625
(73,233)	8,881	(199,836)
57,354	36,556	370,047
(15,879)	45,437	170,211
-	(16,184)	(16,184)
-	-	88,385
-	26,622	78,890
(15,879)	34,999	19,120
(15,879)	45,437	170,211

City of Stratford, Iowa

Exhibit C

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

As of and for the year ended June 30, 2006

	Enterprise Funds			
	Electric	Garbage and Landfill	Nonmajor-Funds	Total
Operating receipts:				
Charges for service	564,406	77,335	115,350	757,091
Miscellaneous	1,086	-	968	2,054
Total operating receipts	565,492	77,335	116,318	759,145
Operating disbursements:				
Business type activities	545,137	82,460	97,071	724,668
Total operating disbursements	545,137	82,460	97,071	724,668
Excess (deficiency) of operating receipts over (under) operating disbursements	20,355	(5,125)	19,247	34,477
Non-operating receipts (disbursements):				
Miscellaneous	4,283	4,589	1,391	10,264
Debt service	-	-	(27,105)	(27,105)
Total non-operating receipts (disbursements)	4,283	4,589	(25,714)	(16,842)
Excess (deficiency) of receipts over (under) disbursements	24,638	(536)	(6,467)	17,635
Operating transfers out	(3,750)	-	(1,875)	(5,625)
Net change in cash balances	20,888	(536)	(8,342)	12,010
Cash balances beginning of year	610,924	5,133	97,927	713,984
Cash balances end of year	631,812	4,597	89,585	725,994
Cash Basis Fund Balances				
Reserved for debt service	-	-	24,333	24,333
Unreserved	631,812	4,597	65,252	701,661
Total cash basis fund balances	631,812	4,597	89,585	725,994

See notes to financial statements.

(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.

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 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.

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 TIF Fund is used to account for projects financed by tax increment financing collections

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

The City reports the following major proprietary funds:

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.

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 works, culture and recreation, community and economic development, general government, debt service, capital projects, and business activities functions.

(2) Cash

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 improvements certificates of a drainage district.

There were no investments at June 30, 2006. During the year, the City invested its excess funds in certificates of deposit and money market savings accounts.

(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	
June 30,	Principal	Interest	Principal	Interest	Principal	Interest
2007	46,705	12,607	21,000	6,514	19,881	8,554
2008	47,478	11,188	22,000	5,544	21,451	7,013
2009	40,000	9,608	23,000	4,527	23,146	5,351
2010	40,000	8,328	24,000	3,465	24,975	3,557
2011	40,000	6,948	25,000	2,356	20,924	1,622
2012-2014	135,000	11,070	26,000	1,201	110,377	---
Total	$ 349,183	59,749	141,000	23,607	110,377	26,097
	======	======	======	======	======	======

Year Ending	Total	
June 30,	Principal	Interest
2007	$ 87,586	27,675
2008	90,929	23,745
2009	86,146	19,486
2010	88,975	15,350
2011	85,924	10,926
2012-2014	161,000	12,271
Total	$ 600,560	109,453
	======	======

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 balance at June 30, 2006.

(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.

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, 2006, 2005, and 2004 were $7,978, $7,705, and $7,419, 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, 2006, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 4,250
	=====

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

(6) 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.

(7) 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	$ 4,885
Capital Projects:		
Capital Improvement	General	1,875
	Enterprise	
	Water	1,875
	Electric	3,750
Debt Service	Special Revenue:	
	TIF	87,893
Total		$ 100,278

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

(8) Deficit Fund Balances

The Enterprise Fund, Sewer Utility Account had a deficit balance of $11,340 at June 30, 2006. The City is planning to have a rate study and will consider increasing rates at that time.

The Special Revenue Fund, Project Share Account had a deficit balance of $2,561 at June 30, 2006. This deficit will be eliminated upon transfer of monies from the electric fund.

The Debt Service Fund, had a deficit balance of $16,184 at June 30, 2006. This deficit will be eliminated upon receipt of property taxes.

The Special Revenue Fund, Road Use Tax had a deficit balance of $14,718 at June 30, 2006. This deficit will be eliminated upon reduction of spending and use of Local Option Sales Tax funds.

The Capital Project Fund, Pool Renovation had a deficit balance of $15,879 at June 30, 2006. This deficit will be eliminated upon transfer of monies from the Capital-Improvement fund.

(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 expired March 2006 at which time a new lease agreement was entered into for 22 months at $208 per month. Lease payments made during June 30, 2005 were $1,489. Future minimum payments are as follows:

Year	Amount
6-30-07	$ 2,494
6-30-08	1,455
	3,949

(10) Purchase Agreement

The City of Stratford has entered into a purchase agreement to purchase a mosquito fogger for $8,800. The agreement required two annual payments of $4,400. Future minimum payments are as follows:

Year	Amount
6-30-07	$ 4,400
	4,400
	====

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, 2006

	Governmental Funds Actual	Proprietary Funds Actual
Receipts:		
Property tax	169,558	-
Tax increment financing collections	56,344	-
Other city tax	50,711	-
Licenses and permits	980	-
Use of money and property	37,814	-
Intergovernmental	86,766	-
Charges for service	15,144	757,091
Miscellaneous	17,729	12,318
Total receipts	435,046	769,409
Disbursements:		
Public safety	80,342	-
Public works	77,875	-
Health and social services	1,110	-
Culture and recreation	102,864	-
Community and economic development	52,469	-
General government	109,257	-
Debt service	143,357	-
Capital projects	73,233	-
Business type activities	-	751,773
Total disbursements	640,507	751,773
Excess (deficiency) of receipts over (under) disbursements	(205,461)	17,635
Other financing sources, net	5,625	(5,625)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(199,836)	12,010
Balances beginning of year	370,047	713,984
Balances end of year	170,211	725,994

See accompanying independent auditor's report.

Net	Original	Final	Final to Net Variance
169,558	148,900	148,900	20,658
56,344	54,195	54,195	2,149
50,711	46,526	46,526	4,185
980	900	900	80
37,814	15,000	15,000	22,814
86,766	85,278	85,278	1,488
772,236	806,000	806,000	(33,765)
30,046	4,850	4,850	25,196
1,204,455	1,161,649	1,161,649	42,806
80,342	87,793	87,793	7,451
77,875	65,918	65,918	(11,957)
1,110	4,300	4,300	3,190
102,864	67,760	67,760	(35,104)
52,469	5,600	5,600	(46,869)
109,257	67,000	67,000	(42,257)
143,357	101,775	101,775	(41,582)
73,233	-	-	(73,233)
751,773	742,000	742,000	(9,773)
1,392,280	1,142,146	1,142,146	(250,134)
(187,826)	19,503	19,503	(207,329)
-	-	-	-
(187,826)	19,503	19,503	(207,329)
1,084,031	1,049,146	1,049,146	34,885
896,205	1,068,649	1,068,649	(172,444)

City of Stratford, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2006

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund 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 ended June 30, 2006, disbursements exceeded the amounts budgeted in the public works, culture and recreation, community and economic development, general government, debt service, capital projects, and business type 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, 2006

	Special Revenue			
	Local Option Sales Tax	Employee Benefits	Project Share	Library Computer Grant
Receipts:				
Property tax	$ -	22,567	-	-
Tax increment financing collections	-	-	-	-
Other city tax	50,438	7	-	-
Intergovernmental	-	-	-	933
Miscellaneous	-	60	63	-
Total receipts	50,438	22,634	63	933
Disbursements:				
Operating:				
Public safety	45,553	514	-	-
Public works	-	324	-	-
Culture and receation	-	4,238	-	-
Community and economic development	-	-	-	-
General government	-	9,277	500	-
Debt service	-	-	-	-
Total disbursements	45,553	14,353	500	-
Excess (deficiency) of receipts over (under) disbursements	4,885	8,281	(437)	933
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	4,885	-	-	-
Total other financing sources (uses)	(4,885)	-	-	-
Net change in cash balances	-	8,281	(437)	933
Cash balances beginning of year	-	19,969	(2,124)	-
Cash balances end of year	$ -	28,250	(2,561)	933
Cash Basis Fund Balances				
Reserved:				
Debt service	$ -	-	-	-
Unreserved:				
Special revenue funds	-	28,250	(2,561)	933
Capital project funds	-	-	-	-
Total cash basis fund balances	$ -	28,250	(2,561)	933

See accompanying independent auditor's report.

Debt Service	Capital Projects	Total
47,260	-	69,827
-	-	-
12	-	50,457
796	-	1,729
-	-	123
48,068	-	122,136
-	-	46,067
-	-	324
-	-	4,238
-	-	-
-	-	9,777
143,357	-	143,357
143,357	-	203,763
(95,289)	-	(81,627)
87,893	7,500	95,393
-	-	4,885
87,893	7,500	90,508
(7,396)	7,500	8,881
(8,788)	27,499	36,556
(16,184)	34,999	45,437
(16,184)	-	(16,184)
-	-	26,622
-	34,999	34,999
(16,184)	34,999	45,437

City of Stratford, Iowa

Schedule 2

Statement of Cash Receipts, Disbursements
and Changes in CashBalances
Nonmajor Proprietary Funds

As of and for the year ended June 30, 2006

	Enterprise Funds		
	Water	Sewer	Total
Operating receipts:			
Charges for service	$ 73,513	41,837	115,350
Miscellaneous	966	2	968
Total operating receipts	74,479	41,839	116,318
Operating disbursements:			
Business type activities	66,470	30,601	97,071
Total operating disbursements	66,470	30,601	97,071
Excess (deficiency) of operating receipts over (under) operating disbursements	8,009	11,238	19,247
Non-operating receipts (disbursements):			
Miscellaneous	731	660	1,391
Debt service	-	(27,105)	(27,105)
Total non-operating receipts (disbursements)	731	(26,445)	(25,714)
Excess (deficiency) of receipts over (under) disbursements	8,740	(15,207)	(6,467)
Operating transfers out	(1,875)	-	(1,875)
Net change in cash balances	6,865	(15,207)	(8,342)
Cash balances beginning of year	94,060	3,867	97,927
Cash balances end of year	$ 100,925	(11,340)	89,585
Cash Basis Fund Balances			
Reserved for debt service	-	24,333	24,333
Unreserved	100,925	(35,673)	65,252
Total cash basis fund balances	$ 100,925	(11,340)	89,585

See accompanying independent auditor's report.

City of Stratford, Iowa

Schedule of Indebtedness

Year ended June 30, 2006

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
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	3.00 %	$ 350,000
Urban renewal tax increment financing (TIF) revenue bonds	May 1, 2001	7.75 %	$ 230,000

See accompanying independent auditor's report.

Schedule 3

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
20,501	-	6,318	14,183	1,174	-
85,000	-	85,000	-	3,885	-
370,000	-	35,000	335,000	12,580	-
$ 475,501	-	126,318	349,183	17,639	-
$ 161,000	-	20,000	141,000	6,134	-
$ 157,868	-	47,491	110,377	11,308	-

Bond and Note Maturities

June 30, 2006

Year Ending June 30,	Revenue Bond Sewer Issued June 1, 1992 Interest Rates	Amount
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		$ 141,000

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds Issued May 1, 2001 Interest Rates	Amount
2007	7.75	19,881
2008	7.75	21,451
2009	7.75	23,146
2010	7.75	24,975
2011	7.75	20,924
Total		$ 110,377

(continued)

City of Stratford, Iowa

Schedule 4

Bond and Note Maturities

June 30, 2006

	General Obligation Notes				
	Fire Equipment		Swimming Pool		
Year	Issued Aug 15, 1996		Issued May 1, 2004		
Ending	Interest		Interest		
June 30,	Rates	Amount	Rates	Amount	Total
2007	5.65	6,705	2.60	40,000	46,705
2008	5.65	7,478	2.95	40,000	47,478
2009		-	3.20	40,000	40,000
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		$ 14,183		$ 335,000	349,183

See accompanying independent auditor's report.

City of Stratford, Iowa

Schedule 5

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

For the Last Four Years

	2006	2005	2004	2003
Receipts:				
Property tax	$ 169,558	180,707	116,850	114665
Tax increment financing collections	56,344	30,156	122,258	129822
Other city tax	50,711	49,108	42,089	30236
Licenses and permits	980	1,135	1,163	1151
Use of money and property	37,814	19,149	13,750	13731
Intergovernmental	86,766	99,355	114,479	89684
Charges for service	15,144	13,839	16,378	20057
Miscellaneous	17,729	6,653	5,759	19,930
Total	$ 435,047	400,102	432,726	419,276
Disbursements:				
Operating:				
Public safety	$ 80,342	76,195	89,222	62788
Public works	77,875	69,353	64,832	65255
Health and social services	1,110	3,324	3,486	1828
Culture and recreation	102,864	71,218	98,007	71714
Community and economic development	52,469	1,175	43,236	63213
General government	109,257	93,911	76,310	70705
Debt service	143,357	77,247	33,409	34259
Capital projects	73,233	435,196	80,000	-
Total	$ 640,507	827,619	488,502	369,762

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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 24, 2007. 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-06 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, 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 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.L.C.
Certified Public Accountants

January 24, 2007

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2006

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

I-A-06 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.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2006

Part II: Other Findings Related to Statutory Reporting:

II-A-06 Certified Budget - Disbursements during the year ended June 30, 2006 exceeded the amounts budgeted in the public works, 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 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 the future, if applicable. The City Administrator was new this past year and didn't fully understand the budget process.

Conclusion – Response accepted.

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

II-D-06 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, 2006. 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, 2006

II-E-06 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-F-06 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-06 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, except that a couple of certificates of deposits did receive the minimum interest rate established by the State Rate Setting Committee.

Recommendation - City Officers should investigate this with their depositories to see if the city is owed additional interest.

Response - We will do this

Conclusion - Response accepted

II-H-06 Revenue Bonds - The City had a deficit unreserved balance in the Sewer Utility Account at June 30, 2006.

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, 2006

II-I-06 Financial Condition - As noted in notes to financial statements, footnote eight, there were several accounts with deficit balances at June 30, 2006.

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.