

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, 2007

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City of Stratford, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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	Resigned
Al Kraus	Council Member	Resigned
Julie Ehrsemann	Council Member	Jan 2010
Travis A Cooke	Manager/Treasurer	Indefinite
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, 2007, 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, 2007, 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 October 25, 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 9 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, 2006 (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

October 25, 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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities increased approximately \$247,000 or 56% from fiscal 2006 to fiscal 2007 due to the addition of the Rescue Fund.
- Disbursements increased approximately \$211,000 or 15% from fiscal 2006 to fiscal 2007, due to a water improvement project that was started.
- The City's total cash basis net assets decreased \$41,000 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities increased \$79,000 and the assets of the business type activities decreased \$120,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds.

Basis of Accounting

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

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

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

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the electric, water, sewer, and garbage. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two types of funds:

- 1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds, and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Debt Service Fund and 4) the Capital Projects Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position.

Changes in Cash Basis Net Assets of Governmental Activities

	<u>Year ended June 30,</u>	
	<u>2007</u>	<u>2006</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 217,422	25,737
Operating grants, contributions and restricted interest	98,561	74,508
Capital grants, contributions and restricted interest	9,318	-
General receipts:		
Property tax	226,075	226,174
Local option sales tax	60,807	50,439
Unrestricted interest on investments	5,300	35,588
Other general receipts	63,174	22,600
Transfers, net	<u>7,500</u>	<u>5,625</u>
Total receipts and transfers	<u>688,157</u>	<u>440,671</u>

	<u>Year ended June 30.</u>	
	<u>2007</u>	<u>2006</u>
Disbursements:		
Public safety	201,417	80,342
Public works	26,480	77,875
Health and social services	6,793	1,110
Culture and recreation	135,208	102,864
Community and economic development	750	52,469
General government	71,292	109,257
Debt service	166,923	101,867
Capital projects	-	<u>114,723</u>
Total disbursements	<u>608,863</u>	<u>640,507</u>
Increase(decrease) in cash basis net assets	79,294	(199,836)
Cash basis net assets beginning of year	<u>172,771</u>	<u>372,607</u>
Cash basis net assets end of year	\$ 252,065	172,771
	=====	=====

The significant increase in receipts was primarily the result of adding the Rescue Fund to the financial statements.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30.</u>	
	<u>2007</u>	<u>2006</u>
Receipts:		
Program receipts:		
Charges for services:		
Water	\$ 64,961	74,479
Electric	526,462	565,492
Garbage and landfill	75,054	77,335
Sewer	40,154	41,839
Miscellaneous	63,922	10,263
Loan proceeds	<u>109,978</u>	-
Total receipts	<u>880,531</u>	<u>769,408</u>
Disbursements and transfers:		
Water	188,042	66,470
Electric	661,081	545,137
Garbage and landfill	72,496	82,460
Sewer	71,336	57,706
Transfers	<u>7,500</u>	<u>5,625</u>
Total disbursements and transfers	<u>1,000,455</u>	<u>757,398</u>
Increase (decrease) in cash balance	(119,924)	12,010
Cash basis net assets beginning of year	<u>723,434</u>	<u>711,424</u>
Cash basis net assets end of year	\$ 603,510	723,434
	=====	=====

The significant increase in receipts and disbursements was due to a water improvement project that was started during fiscal year 2007.

INDIVIDUAL MAJOR FUND ANALYSIS

The general and water 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.

BUDGETARY HIGHLIGHTS

The City over expended its budget in Culture and Recreation and Business Type activities. Primary reasons for over expenditures in Culture and Recreation include higher than anticipated pool wages and operations expense. The City will better estimate these expenses in future budgets. Primary reasons for over expenditures in Business Type activities include an error in budgeting interim financing disbursements for water utility improvements and unanticipated operations and maintenance expenses for the sewer utility. The City will correctly budget interim financing for capital projects and better estimate operations and maintenance expenses for the sewer utility in future budgets.

DEBT ADMINISTRATION

At June 30, 2007, the City had approximately \$542,000 in bonds and other long-term debt. The City has not experienced any changes that would affect its ability to obtain credit. The City of Stratford does not obtain a bond rating because the cost of the analysis would be more than any potential savings in interest relative to the amount of debt carried by the City.

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 2008 budget, tax rates and fees that will be charged for various city activities. One of the major factors taken into account was the need to address rates for water and sewer services. Continued construction on phases of the water utility improvement plan including ongoing water main improvements and the planning and construction of a new water plant will result in additional revenue bonding and will impact rates charged for water. Sewer utility rates will need to be raised substantially to correct deficits in the unreserved balance of the utility and allow for the building of reserves for maintenance and future improvements.

Other factors taken into account when setting the budget included review of valuations and the impact of having a significant number of homes on five year tax abatements through the City's urban renewal plan. The increase in abated tax base is due to the November 2005 tornado. Commercial valuations, fewer military exemptions, and paying down the Athens Woods TIF bond mitigated the anticipated decline in tax revenues to the City. The City's overall levy rate was maintained from the 2007 fiscal year to the 2008 fiscal year.

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 Rachel Cahill, 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, 2007

	Program Receipts			
		Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest	
<u>Disbursements</u>	<u>Charges for Service</u>			
Functions/Programs:				
Governmental activities:				
Public safety	\$ 201,417	205,417	25,616	9,318
Public works	26,480	-	62,175	-
Health and social services	6,793	-	-	-
Culture and recreation	135,208	-	2,000	-
Community and economic development	750	12,005	-	-
General government	71,292	-	8,770	-
Debt service	<u>166,923</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>608,863</u>	<u>217,422</u>	<u>98,561</u>	<u>9,318</u>
Business type activities:				
Water	188,042	64,961	-	-
Electric	661,081	526,462	-	-
Garbage and landfill	72,496	75,054	-	-
Sewer	<u>71,336</u>	<u>40,154</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>992,955</u>	<u>706,631</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 1,601,818</u>	<u>924,053</u>	<u>98,561</u>	<u>9,318</u>

General Receipts:

Property tax levied for:
General purposes
Tax increment financing
Debt service
Local option sales tax
Unrestricted interest on investments
Loan 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
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
38,934	-	38,934
35,695	-	35,695
(6,793)	-	(6,793)
(133,208)	-	(133,208)
11,255	-	11,255
(62,522)	-	(62,522)
<u>(166,923)</u>	<u>-</u>	<u>(166,923)</u>
<u>(283,562)</u>	<u>-</u>	<u>(283,562)</u>
-	(123,081)	(123,081)
-	(134,619)	(134,619)
-	2,558	2,558
<u>-</u>	<u>(31,182)</u>	<u>(31,182)</u>
<u>-</u>	<u>(286,324)</u>	<u>(286,324)</u>
<u>(283,562)</u>	<u>(286,324)</u>	<u>(569,886)</u>
138,060	-	138,060
30,369	-	30,369
57,646	-	57,646
60,807	-	60,807
5,300	55,110	60,410
-	109,978	109,978
63,174	8,812	71,986
<u>7,500</u>	<u>(7,500)</u>	<u>-</u>
<u>362,856</u>	<u>166,400</u>	<u>529,256</u>
79,294	(119,924)	(40,630)
<u>172,771</u>	<u>723,434</u>	<u>896,205</u>
<u>\$ 252,065</u>	<u>603,510</u>	<u>855,575</u>
23,949	-	23,949
(9,085)	-	(9,085)
(2,809)	-	(2,809)
160,144	-	160,144
<u>79,894</u>	<u>603,510</u>	<u>683,404</u>
<u>\$ 252,093</u>	<u>603,510</u>	<u>855,603</u>

City of Stratford, Iowa
Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds
As of and for the year ended June 30, 2007

	Special Revenue		
	General	Rescue	TIF
Receipts:			
Property tax	\$ 116,076	-	-
Tax increment financing collections	-	-	30,369
Other city tax	-	-	-
Licenses and permits	1,137	-	-
Use of money and property	11,210	3,267	-
Intergovernmental	34,386	-	-
Charges for service	12,005	204,280	-
Miscellaneous	43,338	-	-
Total receipts	218,152	207,547	30,369
Disbursements:			
Operating:			
Public safety	48,047	149,803	-
Public works	1,437	-	-
Health and social services	6,703	-	-
Culture and recreation	126,361	-	-
Community and economic development	750	-	-
General government	67,059	-	-
Debt service	-	-	106,440
Total disbursements	250,357	149,803	106,440
Excess (deficiency) of receipts over (under) disbursements	(32,205)	57,744	(76,071)
Other financing sources (uses):			
Operating transfers in	948	-	-
Operating transfers out	7,403	-	-
Total other financing sources (uses)	(6,455)	-	-
Net change in cash balances	(38,660)	57,744	(76,071)
Cash balances beginning of year	88,385	-	66,986
Cash balances end of year	\$ 49,725	57,744	(9,085)
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	-	-
Unreserved:			
General fund	49,725	-	-
Special revenue funds	-	57,744	(9,085)
Capital project funds	-	-	-
Total cash basis fund balances	\$ 49,725	57,744	(9,085)

See notes to financial statements.

Exhibit B

Nonmajor Governmental	
<u>Funds</u>	<u>Total</u>
79,658	195,734
-	30,369
60,808	60,808
-	1,137
-	14,477
73,493	107,879
-	216,285
<u>10,658</u>	<u>53,996</u>
<u>224,617</u>	<u>680,685</u>
3,567	201,417
25,043	26,480
90	6,793
8,847	135,208
-	750
4,233	71,292
<u>60,483</u>	<u>166,923</u>
<u>102,263</u>	<u>608,863</u>
<u>122,354</u>	<u>71,822</u>
48,038	48,986
<u>34,083</u>	<u>41,486</u>
<u>13,955</u>	<u>7,500</u>
136,309	79,322
<u>17,400</u>	<u>172,771</u>
<u>153,709</u>	<u>252,093</u>
(2,809)	(2,809)
-	49,725
126,349	175,008
<u>30,169</u>	<u>30,169</u>
<u>153,709</u>	<u>252,093</u>

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

As of and for the year ended June 30, 2007

	Enterprise Funds			
	Water Utility	Electric Utility	Nonmajor- Funds	Total
Operating receipts:				
Charges for service	64,961	526,461	115,208	706,630
Miscellaneous	<u>7,092</u>	<u>24,571</u>	<u>1,721</u>	<u>33,384</u>
Total operating receipts	<u>72,053</u>	<u>551,032</u>	<u>116,929</u>	<u>740,014</u>
Operating disbursements:				
Business type activities	<u>188,042</u>	<u>661,081</u>	<u>118,532</u>	<u>967,655</u>
Total operating disbursements	<u>188,042</u>	<u>661,081</u>	<u>118,532</u>	<u>967,655</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(115,989)</u>	<u>(110,049)</u>	<u>(1,603)</u>	<u>(227,641)</u>
Non-operating receipts (disbursements):				
Miscellaneous	-	29,568	971	30,539
Loan proceeds	109,978	-	-	109,978
Debt service	<u>-</u>	<u>-</u>	<u>(25,300)</u>	<u>(25,300)</u>
Total non-operating receipts (disbursements)	<u>109,978</u>	<u>29,568</u>	<u>(24,329)</u>	<u>115,217</u>
Excess (deficiency) of receipts over (under) disbursements	(6,011)	(80,481)	(25,932)	(112,424)
Operating transfers out	<u>(2,500)</u>	<u>(5,000)</u>	<u>-</u>	<u>(7,500)</u>
Net change in cash balances	(8,511)	(85,481)	(25,932)	(119,924)
Cash balances beginning of year	<u>100,924</u>	<u>629,251</u>	<u>(6,741)</u>	<u>723,434</u>
Cash balances end of year	<u>92,413</u>	<u>543,770</u>	<u>(32,673)</u>	<u>603,510</u>
Cash Basis Fund Balances				
Unreserved	<u>92,413</u>	<u>543,770</u>	<u>(32,673)</u>	<u>603,510</u>
Total cash basis fund balances	<u>92,413</u>	<u>543,770</u>	<u>(32,673)</u>	<u>603,510</u>

See notes to financial statements.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Stratford is a political subdivision of the State of Iowa located in Hamilton and Webster counties. It was first incorporated in 1883 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, electric and garbage utilities for its citizens.

A. Reporting Entity

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

Jointly Governed Organizations

The City participates in a jointly governed organization that provides goods or services to the citizenry of the City but does not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following board: Hamilton County Joint E911 Service Board.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

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

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

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental or enterprise funds.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

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 Rescue Fund is used to account for the operations of the Stratford ambulance and fire and rescue operations.

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

The City reports the following major proprietary funds:

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

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

C. Measurement Focus and Basis of Accounting

The City of Stratford maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

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, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, and business activities functions.

(2) **Cash**

The City's deposits in banks at June 30, 2007 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, 2007. During the year, the City invested its excess funds in certificates of deposit and money market savings accounts.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

(3) Bonds and Notes Payable

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

Year Ending	General Obligation Notes		Revenue Bonds		Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
June 30,						
2008	47,502	11,212	22,000	3,600	9,294	720
2009	40,000	9,608	23,000	2,940	---	---
2010	40,000	8,327	24,000	2,250	---	---
2011	40,000	6,948	25,000	1,530	---	---
2012	45,000	5,467	26,000	780	---	---
2013-2014	<u>90,000</u>	<u>5,603</u>	---	---	---	---
Total	\$ 302,502	47,165	120,000	11,100	9,294	720

Year Ending	Total	
June 30,	Principal	Interest
2008	\$ 78,796	15,532
2009	63,000	12,548
2010	64,000	10,577
2011	65,000	8,478
2012	71,000	6,247
2013-2014	<u>90,000</u>	<u>5,603</u>
Total	\$ 431,796	58,985

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

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, 2007.

City officials approved issuing a water revenue loan anticipation project note in an amount not to exceed \$315,000. During the year ending June 30, 2007 \$109,978 was advanced against this note. This note has a maturity date of November 1, 2007 with an interest rate of 5.71%. This anticipation loan will be refinanced with the issuance of revenue notes.

City of Stratford, Iowa

Notes to Financial Statements

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 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, 2007, 2006, and 2005 were \$9,300, \$7,978, and \$7,705, 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, 2007, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 6,500
	=====

This liability has been computed based on rates of pay in effect at June 30, 2007.

(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.

City of Stratford, Iowa
Notes to Financial Statements

June 30, 2007

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue: Library Trust	\$ 948
Capital Projects: Capital Improvement	General	7,403
	Enterprise: Water	2,500
	Electric	5,000
Debt Service	Special Revenue: Emergency	3,011
	Capital projects	13,174
Special Revenue: LOST – Pool Account	Special Revenue: LOST – Streets Account	<u>16,950</u>
Total		\$ 48,986 =====

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

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2007

(8) Deficit Fund Balances

The Enterprise Fund, Sewer Utility Account had a deficit balance of \$40,979 at June 30, 2007. The City had a rate study and will increase rates.

The Special Revenue Fund, TIF Account had a deficit balance of \$9,085 at June 30, 2007. This deficit will be eliminated upon transfer of monies from the electric fund.

The Debt Service Fund, had a deficit balance of \$2,809 at June 30, 2007. This deficit will be eliminated upon receipt of property taxes.

(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, 2007 were \$1,489. Future minimum payments are as follows:

<u>Year</u>	<u>Amount</u>
6-30-08	\$ 1,455
	=====

(10) Construction Commitment

The City of Stratford has committed to a water improvement project for approximately \$1.3 million. As of June 30, 2006 \$71,000 has been paid towards this project. This project will be financed with the issuance of revenue bonds.

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, 2007

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 195,734	-
Tax increment financing collections	30,369	-
Other city tax	60,808	-
Licenses and permits	1,137	-
Use of money and property	14,477	-
Intergovernmental	107,879	-
Charges for service	216,285	706,630
Miscellaneous	<u>53,996</u>	<u>63,923</u>
Total receipts	<u>680,685</u>	<u>770,553</u>
Disbursements:		
Public safety	201,417	-
Public works	26,480	-
Health and social services	6,793	-
Culture and recreation	135,208	-
Community and economic development	750	-
General government	71,292	-
Debt service	166,923	-
Business type activities	<u>-</u>	<u>992,955</u>
Total disbursements	<u>608,863</u>	<u>992,955</u>
Excess (deficiency) of receipts over (under) disbursements	71,822	(222,402)
Other financing sources, net	<u>7,500</u>	<u>102,478</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	79,322	(119,924)
Balances beginning of year	<u>172,771</u>	<u>723,434</u>
Balances end of year	<u>\$ 252,093</u>	<u>603,510</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Original</u>	<u>Final</u>	Final to Net <u>Variance</u>
195,734	194,626	194,626	1,108
30,369	50,752	30,309	60
60,808	54,148	54,148	6,660
1,137	900	900	237
14,477	19,650	19,650	(5,173)
107,879	86,692	86,692	21,187
922,915	806,000	985,307	(62,392)
<u>117,919</u>	<u>3,200</u>	<u>3,200</u>	<u>114,719</u>
<u>1,451,238</u>	<u>1,215,968</u>	<u>1,374,832</u>	<u>76,406</u>
201,417	94,059	205,114	3,697
26,480	69,547	69,547	43,067
6,793	9,100	9,100	2,307
135,208	85,721	123,456	(11,752)
750	5,000	5,000	4,250
71,292	82,656	82,656	11,364
166,923	108,580	175,666	8,743
<u>992,955</u>	<u>742,000</u>	<u>866,731</u>	<u>(126,224)</u>
<u>1,601,818</u>	<u>1,196,663</u>	<u>1,537,270</u>	<u>(64,548)</u>
(150,580)	19,305	(162,438)	11,858
<u>109,978</u>	<u>-</u>	<u>350,000</u>	<u>(240,022)</u>
(40,602)	19,305	187,562	(228,164)
<u>896,205</u>	<u>1,108,006</u>	<u>830,205</u>	<u>66,000</u>
<u>855,603</u>	<u>1,127,311</u>	<u>1,017,767</u>	<u>(162,164)</u>

City of Stratford, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

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, 2007, two budget amendments increased budgeted disbursements by \$340,507, budgeted receipts by \$158,864 and other financing sources by \$350,000.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the culture and recreation, 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, 2007

	Special Revenue			
	Road Use	Trust & Agency	Emergency	LOST Streets
Receipts:				
Property tax	\$ -	18,973	3,011	-
Other city tax	-	-	-	47,349
Intergovernmental	62,175	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>62,175</u>	<u>18,973</u>	<u>3,011</u>	<u>47,349</u>
Disbursements:				
Operating:				
Public safety	-	3,567	-	-
Public works	23,507	1,536	-	-
Health and social services	-	90	-	-
Culture and recreation	-	8,847	-	-
General government	-	4,233	-	-
Debt service	-	-	-	-
Total disbursements	<u>23,507</u>	<u>18,273</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>38,668</u>	<u>700</u>	<u>3,011</u>	<u>47,349</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	3,011	16,950
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(3,011)</u>	<u>(16,950)</u>
Net change in cash balances	38,668	700	-	30,399
Cash balances beginning of year	(14,719)	28,249	-	-
Cash balances end of year	<u>\$ 23,949</u>	<u>28,949</u>	<u>-</u>	<u>30,399</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	23,949	28,949	-	30,399
Capital project funds	-	-	-	-
Total cash basis fund balances	<u>\$ 23,949</u>	<u>28,949</u>	<u>-</u>	<u>30,399</u>

See accompanying independent auditor's report.

Schedule 1

<u>LOST Pool</u>	<u>Library Trust</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
-	-	57,674	-	79,658
13,459	-	-	-	60,808
-	2,000	-	9,318	73,493
-	10,658	-	-	10,658
<u>13,459</u>	<u>12,658</u>	<u>57,674</u>	<u>9,318</u>	<u>224,617</u>
-	-	-	-	3,567
-	-	-	-	25,043
-	-	-	-	90
-	-	-	-	8,847
-	-	-	-	4,233
-	-	60,483	-	60,483
-	-	<u>60,483</u>	-	<u>102,263</u>
<u>13,459</u>	<u>12,658</u>	<u>(2,809)</u>	<u>9,318</u>	<u>122,354</u>
16,950	-	16,184	14,904	48,038
-	948	-	13,174	34,083
<u>16,950</u>	<u>(948)</u>	<u>16,184</u>	<u>1,730</u>	<u>13,955</u>
30,409	11,710	13,375	11,048	136,309
-	933	(16,184)	19,121	17,400
<u>30,409</u>	<u>12,643</u>	<u>(2,809)</u>	<u>30,169</u>	<u>153,709</u>
-	-	(2,809)	-	(2,809)
30,409	12,643	-	-	126,349
-	-	-	30,169	30,169
<u>30,409</u>	<u>12,643</u>	<u>(2,809)</u>	<u>30,169</u>	<u>153,709</u>

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

As of and for the year ended June 30, 2007

	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Garbage & Landfill</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 40,154	75,054	115,208
Miscellaneous	<u>572</u>	<u>1,149</u>	<u>1,721</u>
Total operating receipts	<u>40,726</u>	<u>76,203</u>	<u>116,929</u>
Operating disbursements:			
Business type activities	<u>46,036</u>	<u>72,496</u>	<u>118,532</u>
Total operating disbursements	<u>46,036</u>	<u>72,496</u>	<u>118,532</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(5,310)</u>	<u>3,707</u>	<u>(1,603)</u>
Non-operating receipts (disbursements):			
Miscellaneous	971	-	971
Debt service	<u>(25,300)</u>	<u>-</u>	<u>(25,300)</u>
Total non-operating receipts (disbursements)	<u>(24,329)</u>	<u>-</u>	<u>(24,329)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(29,639)</u>	<u>3,707</u>	<u>(25,932)</u>
Net change in cash balances	(29,639)	3,707	(25,932)
Cash balances beginning of year	<u>(11,340)</u>	<u>4,599</u>	<u>(6,741)</u>
Cash balances end of year	<u>\$ (40,979)</u>	<u>8,306</u>	<u>(32,673)</u>
Cash Basis Fund Balances			
Unreserved	<u>(40,979)</u>	<u>8,306</u>	<u>(32,673)</u>
Total cash basis fund balances	<u>\$ (40,979)</u>	<u>8,306</u>	<u>(32,673)</u>

See accompanying independent auditor's report.

City of Stratford, Iowa
 Schedule of Indebtedness
 Year ended June 30, 2007

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Fire equipment	Aug 15, 1996	5.65 %	\$ 65,000
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

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
14,183	-	6,681	7,502	804	-
<u>335,000</u>	<u>-</u>	<u>40,000</u>	<u>295,000</u>	<u>11,828</u>	<u>-</u>
<u>\$ 349,183</u>	<u>-</u>	<u>46,681</u>	<u>302,502</u>	<u>12,632</u>	<u>-</u>
<u>\$ 141,000</u>	<u>-</u>	<u>21,000</u>	<u>120,000</u>	<u>4,230</u>	<u>-</u>
<u>\$ 110,377</u>	<u>-</u>	<u>101,083</u>	<u>9,294</u>	<u>5,357</u>	<u>-</u>

Bond and Note Maturities

June 30, 2007

Year Ending <u>June 30,</u>	Revenue Bond	
	Sewer	
	Issued June 1, 1992	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2008	4.62	22,000
2009	4.62	23,000
2010	4.62	24,000
2011-2012	4.62	51,000
Total		<u>\$ 120,000</u>

Year Ending <u>June 30,</u>	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds	
	Issued May 1, 2001	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2008	7.75	9,294
Total		<u>\$ 9,294</u>

(continued)

Bond and Note Maturities

June 30, 2007

Year Ending <u>June 30,</u>	General Obligation Notes				
	Fire Equipment		Swimming Pool		<u>Total</u>
	Issued Aug 15, 1996		Issued May 1, 2004		
	Interest		Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2008	5.65	7,502	2.95	40,000	47,502
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		<u>\$ 7,502</u>		<u>\$ 295,000</u>	<u>302,502</u>

See accompanying independent auditor's report.

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

For the Last Four Years

	<u>2007</u>	<u>2006</u>	<u>2005</u>	<u>2004</u>
Receipts:				
Property tax	\$ 195,734	169,558	180,707	116,850
Tax increment financing collections	30,369	56,344	30,156	122,258
Other city tax	60,808	50,711	49,108	42,089
Licenses and permits	1,137	980	1,135	1,163
Use of money and property	14,477	37,814	19,149	13,750
Intergovernmental	107,879	86,766	99,355	114,479
Charges for service	216,285	15,144	13,839	16,378
Miscellaneous	<u>53,996</u>	<u>17,729</u>	<u>6,653</u>	<u>5,759</u>
 Total	 <u>\$ 680,685</u>	 <u>435,046</u>	 <u>400,102</u>	 <u>432,726</u>
Disbursements:				
Operating:				
Public safety	\$ 201,417	80,342	76,195	89,222
Public works	26,480	77,875	69,353	64,832
Health and social services	6,793	1,110	3,324	3,486
Culture and recreation	135,208	102,864	71,218	98,007
Community and economic development	750	52,469	1,175	43,236
General government	71,292	109,257	93,911	76,310
Debt service	166,923	143,357	77,247	33,409
Capital projects	<u>-</u>	<u>73,233</u>	<u>435,196</u>	<u>80,000</u>
 Total	 <u>\$ 608,863</u>	 <u>640,507</u>	 <u>827,619</u>	 <u>488,502</u>

See accompanying independent auditor's report.

Independent Auditor's Report on Internal Control over Financial Reporting and on Compliance
and Other Matters

Based on an Audit of Financial Statements Performed in Accordance with Government Auditing
Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stratford, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 25, 2007. Our report expressed unqualified opinions 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Stratford's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Stratford's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies and other deficiencies we consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Stratford's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Stratford's financial statements that is more than inconsequential will not be prevented or detected by the City of Stratford's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Stratford's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 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, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Stratford's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Stratford's responses and, accordingly, we express no opinion on them.

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

October 25, 2007

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2007

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-07 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, 2007

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007 exceeded the amounts budgeted in the culture and recreation, and business type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

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

Conclusion – Response accepted.

II-B-07 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-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 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 \$33,234 for the year ended June 30, 2007. 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, 2007

II-E-07 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-07 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-07 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.

II-H-07 Revenue Bonds - The City had a deficit unreserved balance in the Sewer Utility Account at June 30, 2007.

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 have reviewed the situation and are raising our sewer rates.

Conclusion - Response accepted.

II-I-07 Financial Condition - As noted in notes to financial statements, footnote eight, there were a few funds with deficit balances at June 30, 2007.

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

Response - See the description in footnote #8 in notes to the financial statements.

Conclusion - Response accepted.