

CITY OF STRATFORD, IOWA

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

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City of Stratford, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(After January 2008)		
Mike Nepereny	Mayor	Jan 2010
Rick Woodard	Mayor Pro Tem	Jan 2012
Aaron Bradley	Council Member	Jan 2012
Mark Doud	Council Member	Jan 2010
Julie Ehresmann	Council Member	Jan 2010
Brian Wilde	Council Member	Jan 2012
Travis A. Cooke	Manager/Clerk	Oct 2007
Rachel Cahill	Manager/Clerk	Indefinite
Alan C. Schroeder	Attorney	Indefinite
(Before January 2008)		
Mike Nepereny	Mayor	Jan 2010
Rick Woodard	Mayor Pro Tem	Jan 2008
Jerry Janney	Council Member	Jan 2008
Mark Doud	Council Member	Jan 2010
Julie Ehresmann	Council Member	Jan 2010
Travis A. Cooke	Manager/Treasurer	Oct 2007
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, 2008, 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, 2008, 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 5, 2009 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 23 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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, 2007 (which are not presented herein) and expressed unqualified opinions on those financial statements which were 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 5, 2009

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, 2008. 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 decreased 25%, or \$174,724 from fiscal 2007 to fiscal 2008. The decrease in receipts was primarily the result of certificate of deposits cashed in to purchase a rescue vehicle the previous fiscal year and in fiscal year 2008, due to a decrease of miscellaneous revenue such as permits, grants and interest revenue.
- Disbursements from the City's governmental activities decreased by 26% or \$158,795. This was primarily due to rescue vehicle, playground and mosquito equipment that was purchased in previous fiscal year.
- The City's total cash basis net assets increased 9%, or \$77,398, from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities increased \$44,983 and the assets of the business type activities increased by \$32,415.

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. Water and electric are considered to be major funds; sewer and garbage are nonmajor 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>2008</u>	<u>2007</u>
Receipts and transfers:		
Program receipts:		
Charges for service	\$ 78,468	217,422
Operating grants, contributions and restricted interest	90,599	98,561
Capital grants, contributions and restricted interest	---	9,318
General receipts:		
Property tax	211,656	226,075
Local option sales tax	53,900	60,807
Unrestricted interest on investments	6,411	5,300
Other general receipts	41,517	63,174
Transfers, net	<u>12,500</u>	<u>7,500</u>
Total receipts and transfers	<u>495,051</u>	<u>688,157</u>

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Disbursements:		
Public safety	79,166	201,417
Public works	75,672	26,480
Health and social services	2,702	6,793
Culture and recreation	138,220	135,208
Community and economic development	4,529	750
General government	81,081	71,292
Debt service	68,698	166,923
Capital projects	---	---
Total disbursements	<u>450,068</u>	<u>608,863</u>
 Increase (decrease) in cash basis net assets	 44,983	 79,294
 Cash basis net assets beginning of year	 <u>252,093</u>	 <u>172,799</u>
 Cash basis net assets end of year	 \$ 297,076	 252,093
	=====	=====

The City's total receipts for governmental activities decreased by 25% or \$174,724. The decrease in receipts was primarily the result of certificate of deposits cashed in to purchase a rescue vehicle the previous fiscal year and in fiscal year 2008, due to a decrease of miscellaneous revenue such as permits, grants and interest revenue.

The City's total expenditures for governmental activities decreased by 26% or \$158,795. This was primarily due to rescue vehicle, playground and mosquito equipment that was purchased in the previous fiscal year.

Changes in Cash Basis Net Assets of Business Type Activities

	<u>Year ended June 30,</u>	
	<u>2008</u>	<u>2007</u>
Receipts:		
Program receipts:		
Charges for services:		
Water	\$ 92,687	64,961
Electric	526,462	526,462
Garbage and landfill	78,181	75,054
Sewer	63,997	40,154
Miscellaneous	74,594	63,922
Bond/Loan proceeds	<u>205,578</u>	<u>109,978</u>
Total receipts	<u>1,040,882</u>	<u>880,531</u>
Disbursements and transfers:		
Water	331,461	188,042
Electric	509,346	661,081
Garbage and landfill	77,558	72,496
Sewer	52,002	71,336
Debt Service	(25,600)	(25,300)
Transfers	<u>12,500</u>	<u>7,500</u>
Total disbursements and transfers	<u>957,267</u>	<u>1,000,455</u>
Increase (decrease) in cash balance	32,415	(119,924)
Cash basis net assets beginning of year	<u>603,509</u>	<u>723,433</u>
Cash basis net assets end of year	\$ 635,924	603,509
	=====	=====

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The water fund cash balance showed a marginal decrease of \$27,465. This was primarily due to increased costs of maintaining outdated water plant equipment, the renovations of the water tower and well #2. The City is presently in the process of building a new water plant that is to be financed largely by revenue bonding. This fund will be monitored closely due to the water plant project.

The electric fund cash balance showed an increase of \$69,171. This was primarily due to dividing out expenses that pertained to more than just electric over all of those utilities instead of just taking them out of the electric utility.

The wastewater fund cash balance showed a decrease of \$12,046. This was primarily due to dividing out the labor expenses that were previously expensed only under electric and water. The sewer utility rates were raised in November of 2007 to correct the deficits from the previous years. This fund is being closely monitored by the City.

The garbage and landfill fund cash balance showed an increase of \$2,755. This was primarily due to an increase in fees collected for a landfill assessment due just after the new fiscal year.

BUDGETARY HIGHLIGHTS

The City will continue to monitor the deficit sewer fund. The City had one budget amendment during the fiscal year to bring the revenue to a more realistic goal, purchase park equipment and to continue to account for the interim financing. The City will continue to budget for capital projects in the future as needed.

DEBT ADMINISTRATION

At June 30, 2008, the City had approximately \$768,433 in bonds and other long-term debt; this is a significant increase over last years, due to new water revenue note for infrastructure improvements. The Debt Service Fund had a deficit balance of \$7,103 at June 30, 2008. This deficit was due to funds not being levied for during one year for the fire truck. This deficit was eliminated by funds being transferred from the General Fund. 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 2009 budget, tax rates and fees that will be charged for various City activities. One of the major factors taken into account was the increase of water and sewer revenue rates and the need to continue to analyze them frequently to make sure that the rates are adequate to repair deficits and to allow for the building of reserves for maintenance and future improvements. The planning and construction of a new water plant will result in additional revenue bonding which will have a further impact on rates charged for water.

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 abatements through the City's urban renewal plan. The increase in abated tax base is due to the November 2005 tornado. The City's overall levy rate increased from \$15.25555 to \$15.64336 from fiscal 2008 to fiscal 2009.

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 Avenue, 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, 2008

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 79,166	65,030	26,687	-
Public works	75,672	-	63,912	-
Health and social services	2,702	-	-	-
Culture and recreation	138,220	-	-	-
Community and economic development	4,529	13,438	-	-
General government	81,081	-	-	-
Debt service	68,698	-	-	-
Total governmental activities	450,068	78,468	90,599	-
Business type activities:				
Water	331,461	92,687	-	-
Electric	509,346	525,845	-	-
Garbage and landfill	77,558	78,181	-	-
Sewer	77,602	63,997	-	-
Total business type activities	995,967	760,710	-	-
Total	\$ 1,446,035	839,178	90,599	-

General Receipts:

Property and other city tax levied for:

- General purposes
- Tax increment financing
- Debt service

Local option sales tax

Unrestricted interest on investments

Bond proceeds

Miscellaneous

Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

- Streets
- 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
12,551	-	12,551
(11,760)	-	(11,760)
(2,702)	-	(2,702)
(138,220)	-	(138,220)
8,909	-	8,909
(81,081)	-	(81,081)
<u>(68,698)</u>	<u>-</u>	<u>(68,698)</u>
<u>(281,001)</u>	<u>-</u>	<u>(281,001)</u>
-	(238,774)	(238,774)
-	16,499	16,499
-	623	623
<u>-</u>	<u>(13,605)</u>	<u>(13,605)</u>
<u>-</u>	<u>(235,257)</u>	<u>(235,257)</u>
<u>(281,001)</u>	<u>(235,257)</u>	<u>(516,258)</u>
137,286	-	137,286
19,949	-	19,949
54,421	-	54,421
53,900	-	53,900
6,411	62,673	69,084
-	205,578	205,578
41,517	11,921	53,438
<u>12,500</u>	<u>(12,500)</u>	<u>-</u>
<u>325,984</u>	<u>267,672</u>	<u>593,656</u>
44,983	32,415	77,398
<u>252,093</u>	<u>603,509</u>	<u>855,602</u>
<u>\$ 297,076</u>	<u>635,924</u>	<u>933,000</u>
19,265	-	19,265
881	-	881
(7,103)	-	(7,103)
228,073	-	228,073
<u>55,960</u>	<u>635,924</u>	<u>691,884</u>
<u>\$ 297,076</u>	<u>635,924</u>	<u>933,000</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, 2008

Exhibit B

	<u>General</u>	<u>Nonmajor Governmental Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 130,092	61,615	191,707
Tax increment financing	-	19,949	19,949
Other city tax	-	53,900	53,900
Licenses and permits	1,356	-	1,356
Use of money and property	3,436	3,305	6,741
Intergovernmental	26,687	67,012	93,699
Charges for service	13,438	63,674	77,112
Miscellaneous	<u>32,244</u>	<u>5,843</u>	<u>38,087</u>
Total receipts	<u>207,253</u>	<u>275,298</u>	<u>482,551</u>
Disbursements:			
Operating:			
Public safety	36,144	43,022	79,166
Public works	5,022	70,650	75,672
Health and social services	2,372	330	2,702
Culture and recreation	125,847	12,373	138,220
Community and economic development	4,529	-	4,529
General government	76,013	5,068	81,081
Debt service	-	68,698	68,698
Total disbursements	<u>249,927</u>	<u>200,141</u>	<u>450,068</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(42,674)</u>	<u>75,157</u>	<u>32,483</u>
Other financing sources (uses):			
Operating transfers in	11,141	10,550	21,691
Operating transfers out	<u>(3,050)</u>	<u>(6,141)</u>	<u>(9,191)</u>
Total other financing sources (uses)	<u>8,091</u>	<u>4,409</u>	<u>12,500</u>
Net change in cash balances	(34,583)	79,566	44,983
Cash balances beginning of year	49,726	202,367	252,093
Cash balances end of year	<u>\$ 15,143</u>	<u>281,933</u>	<u>297,076</u>
Cash Basis Fund Balances			
Reserved:			
Debt service	\$ -	(7,103)	(7,103)
Unreserved:			
General fund	15,143	-	15,143
Special revenue funds	-	248,219	248,219
Capital project funds	-	40,817	40,817
Total cash basis fund balances	<u>\$ 15,143</u>	<u>281,933</u>	<u>297,076</u>

See notes to financial statements.

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

As of and for the year ended June 30, 2008

	Enterprise Funds			
	Water Utility	Electric Utility	Nonmajor- Funds	Total
Operating receipts:				
Charges for service	\$ 92,687	525,845	142,178	760,710
Miscellaneous	<u>8,231</u>	<u>35,397</u>	<u>3,691</u>	<u>47,319</u>
Total operating receipts	<u>100,918</u>	<u>561,242</u>	<u>145,869</u>	<u>808,029</u>
Operating disbursements:				
Business type activities	<u>331,461</u>	<u>509,346</u>	<u>129,560</u>	<u>970,367</u>
Total operating disbursements	<u>331,461</u>	<u>509,346</u>	<u>129,560</u>	<u>970,367</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>(230,543)</u>	<u>51,896</u>	<u>16,309</u>	<u>(162,338)</u>
Non-operating receipts (disbursements):				
Miscellaneous	-	27,275	-	27,275
Bond proceeds	205,578	-	-	205,578
Debt service	<u>-</u>	<u>-</u>	<u>(25,600)</u>	<u>(25,600)</u>
Total non-operating receipts (disbursements)	<u>205,578</u>	<u>27,275</u>	<u>(25,600)</u>	<u>207,253</u>
Excess (deficiency) of receipts over (under) disbursements	(24,965)	79,171	(9,291)	44,915
Operating transfers out	<u>(2,500)</u>	<u>(10,000)</u>	<u>-</u>	<u>(12,500)</u>
Net change in cash balances	(27,465)	69,171	(9,291)	32,415
Cash balances beginning of year	<u>92,412</u>	<u>543,770</u>	<u>(32,673)</u>	<u>603,509</u>
Cash balances end of year	<u>\$ 64,947</u>	<u>612,941</u>	<u>(41,964)</u>	<u>635,924</u>
Cash Basis Fund Balances				
Unreserved	<u>64,947</u>	<u>612,941</u>	<u>(41,964)</u>	<u>635,924</u>
Total cash basis fund balances	<u>\$ 64,947</u>	<u>612,941</u>	<u>(41,964)</u>	<u>635,924</u>

See notes to financial statements.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2008

(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, 2008

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 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, 2008

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

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.

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.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2008

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.

(2) Cash

The City's deposits in banks at June 30, 2008 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, 2008. 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, 2008

(3) Bonds and Notes Payable

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

Year Ending June 30,	General Obligation Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest
2009	40,000	9,608	51,000	19,042
2010	40,000	8,327	53,000	16,810
2011	40,000	6,948	55,000	14,466
2012	45,000	5,467	57,000	12,054
2013	45,000	3,713	32,000	9,505
2014-2017	<u>45,000</u>	<u>1,890</u>	<u>138,000</u>	<u>19,603</u>
Total	\$ 255,000	35,953	386,000	91,480
	=====	=====	=====	=====

Year Ending June 30,	Total	
	Principal	Interest
2009	91,000	28,650
2010	93,000	25,137
2011	95,000	21,414
2012	102,000	17,521
2013	77,000	13,218
2014-2017	<u>183,000</u>	<u>21,493</u>
Total	\$ 641,000	127,433
	=====	=====

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2008

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 separate water and sewer revenue sinking fund accounts 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.
- (D) A water revenue bond reserve account is to be established and the amount to remain deposited in this account until the series 2007 bonds have been paid in full, shall be equal to one-sixth (1/6) of the interest payment amount due on the next succeeding interest payment date plus a sum equal to one-twelfth (1/12) of the principal installment amount due on the next succeeding principal due date.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2008

(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 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2008, 2007, and 2006 were \$10,093, \$9,300, and \$7,978, 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, 2008, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 5,300
	=====

This liability has been computed based on rates of pay in effect at June 30, 2008.

(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, 2008

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue:	
	Library Trust	\$ 3,141
	Emergency	3,000
	Enterprise:	
	Electric	5,000
Capital Projects:		
Capital Improvement	General	3,050
	Enterprise:	
	Water	2,500
	Electric	<u>5,000</u>
Total		\$ 21,691 =====

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 \$53,025 at June 30, 2008. The City had a rate study and increased rates effective November 2007. This rate increase should eventually return this account to a positive financial position.

The Debt Service Fund, had a deficit balance of \$7,103 at June 30, 2008. This deficit will be eliminated upon transfer of funds.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2008

(9) Construction Commitment

The City of Stratford has committed to a water improvement project for approximately \$970,000. As of June 30, 2008 \$272,000 has been paid towards this project. This project will be financed with the issuance of revenue bonds, a community development block grant and an increase in water rates.

(10) Interfund Loan

The Enterprise Fund, Electric Utility loaned the Enterprise Fund, Water Utility \$54,500 to purchase real estate for the new water plant. City officials anticipate repaying this interfund loan during the next fiscal year.

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, 2008

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 191,707	-
Tax increment financing collections	19,949	-
Other city tax	53,900	-
Licenses and permits	1,356	-
Use of money and property	6,741	-
Intergovernmental	93,699	-
Charges for service	77,112	760,710
Miscellaneous	<u>38,087</u>	<u>74,594</u>
Total receipts	<u>482,551</u>	<u>835,304</u>
Disbursements:		
Public safety	79,166	-
Public works	75,672	-
Health and social services	2,702	-
Culture and recreation	138,220	-
Community and economic development	4,529	-
General government	81,081	-
Debt service	68,698	-
Business type activities	<u>-</u>	<u>995,967</u>
Total disbursements	<u>450,068</u>	<u>995,967</u>
Excess (deficiency) of receipts over (under) disbursements	32,483	(160,663)
Other financing sources, net	<u>30,882</u>	<u>193,078</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	63,365	32,415
Balances beginning of year	<u>252,093</u>	<u>603,509</u>
Balances end of year	<u>\$ 315,458</u>	<u>635,924</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Original</u>	<u>Final</u>	Final to Net <u>Variance</u>
191,707	192,942	192,942	(1,235)
19,949	19,400	19,400	549
53,900	67,624	67,624	(13,724)
1,356	1,910	1,910	(554)
6,741	13,647	16,147	(9,406)
93,699	96,884	96,884	(3,185)
837,822	1,704,528	946,826	(109,004)
112,681	28,223	41,523	71,158
<u>1,317,855</u>	<u>2,125,158</u>	<u>1,383,256</u>	<u>(65,401)</u>
79,166	168,167	86,660	7,494
75,672	121,524	121,524	45,852
2,702	4,500	11,765	9,063
138,220	117,852	146,749	8,529
4,529	6,000	6,000	1,471
81,081	77,813	90,755	9,674
68,698	55,078	72,665	3,967
995,967	1,730,221	1,137,024	141,057
<u>1,446,035</u>	<u>2,281,155</u>	<u>1,673,142</u>	<u>227,107</u>
(128,180)	(155,997)	(289,886)	161,706
<u>205,578</u>	<u>-</u>	<u>209,000</u>	<u>(3,422)</u>
77,398	(155,997)	(80,886)	158,284
855,602	-	896,242	(40,640)
<u>951,382</u>	<u>1,153,381</u>	<u>815,356</u>	<u>117,644</u>

City of Stratford, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2008

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund or fund type. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Funds and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year ended June 30, 2008, one budget amendment decreased budgeted disbursements by \$608,013, budgeted receipts by \$741,902 and increased other financing sources by \$209,000.

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, 2008

	Special			
	Road <u>Use</u>	Trust & <u>Agency</u>	<u>Emergency</u>	LOST <u>Streets</u>
Receipts:				
Property tax	\$ -	3,877	3,317	-
Tax increment financing	-	-	-	-
Other city tax	-	-	-	26,950
Use of money and property	-	-	-	-
Intergovernmental	63,912	-	-	-
Charges for service	-	-	-	-
Miscellaneous	-	-	-	-
Total receipts	<u>63,912</u>	<u>3,877</u>	<u>3,317</u>	<u>26,950</u>
Disbursements:				
Operating:				
Public safety	-	3,804	-	-
Public works	68,597	2,053	-	-
Health and social services	-	330	-	-
Culture and recreation	-	12,373	-	-
General government	-	5,068	-	-
Debt service	-	-	-	-
Total disbursements	<u>68,597</u>	<u>23,628</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(4,685)</u>	<u>(19,751)</u>	<u>3,317</u>	<u>26,950</u>
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers (out)	-	-	(3,000)	-
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(3,000)</u>	<u>-</u>
Net change in cash balances	(4,685)	(19,751)	317	26,950
Cash balances beginning of year	23,950	28,949	-	30,399
Cash balances end of year	<u>\$ 19,265</u>	<u>9,198</u>	<u>317</u>	<u>57,349</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
Special revenue funds	19,265	9,198	317	57,349
Capital project funds	-	-	-	-
Total cash basis fund balances	<u>\$ 19,265</u>	<u>9,198</u>	<u>317</u>	<u>57,349</u>

See accompanying independent auditor's report.

Schedule 1

Revenue						
<u>LOST Pool</u>	<u>Library Trust</u>	<u>Rescue</u>	<u>TIF</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>
-	-	-	-	54,421	-	61,615
-	-	-	19,949	-	-	19,949
26,950	-	-	-	-	-	53,900
-	-	3,305	-	-	-	3,305
-	3,000	-	-	-	100	67,012
-	-	63,674	-	-	-	63,674
-	5,643	200	-	-	-	5,843
<u>26,950</u>	<u>8,643</u>	<u>67,179</u>	<u>19,949</u>	<u>54,421</u>	<u>100</u>	<u>275,298</u>
-	-	39,218	-	-	-	43,022
-	-	-	-	-	-	70,650
-	-	-	-	-	-	330
-	-	-	-	-	-	12,373
-	-	-	-	-	-	5,068
-	-	-	9,983	58,715	-	68,698
-	-	39,218	9,983	58,715	-	200,141
<u>26,950</u>	<u>8,643</u>	<u>27,961</u>	<u>9,966</u>	<u>(4,294)</u>	<u>100</u>	<u>75,157</u>
-	-	-	-	-	10,550	10,550
-	(3,141)	-	-	-	-	(6,141)
-	(3,141)	-	-	-	10,550	4,409
26,950	5,502	27,961	9,966	(4,294)	10,650	79,566
30,409	12,643	57,744	(9,085)	(2,809)	30,167	202,367
<u>57,359</u>	<u>18,145</u>	<u>85,705</u>	<u>881</u>	<u>(7,103)</u>	<u>40,817</u>	<u>281,933</u>
-	-	-	-	(7,103)	-	(7,103)
57,359	18,145	85,705	881	-	-	248,219
-	-	-	-	-	40,817	40,817
<u>57,359</u>	<u>18,145</u>	<u>85,705</u>	<u>881</u>	<u>(7,103)</u>	<u>40,817</u>	<u>281,933</u>

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

As of and for the year ended June 30, 2008

	<u>Enterprise Funds</u>		
	<u>Sewer</u>	<u>Garbage & Landfill</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 63,997	78,181	142,178
Miscellaneous	<u>1,559</u>	<u>2,132</u>	<u>3,691</u>
Total operating receipts	<u>65,556</u>	<u>80,313</u>	<u>145,869</u>
Operating disbursements:			
Business type activities	<u>52,002</u>	<u>77,558</u>	<u>129,560</u>
Total operating disbursements	<u>52,002</u>	<u>77,558</u>	<u>129,560</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>13,554</u>	<u>2,755</u>	<u>16,309</u>
Non-operating receipts (disbursements):			
Debt service	<u>(25,600)</u>	<u>-</u>	<u>(25,600)</u>
Total non-operating receipts (disbursements)	<u>(25,600)</u>	<u>-</u>	<u>(25,600)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(12,046)</u>	<u>2,755</u>	<u>(9,291)</u>
Net change in cash balances	(12,046)	2,755	(9,291)
Cash balances beginning of year	<u>(40,979)</u>	<u>8,306</u>	<u>(32,673)</u>
Cash balances end of year	<u>\$ (53,025)</u>	<u>11,061</u>	<u>(41,964)</u>
Cash Basis Fund Balances			
Unreserved	<u>(53,025)</u>	<u>11,061</u>	<u>(41,964)</u>
Total cash basis fund balances	<u>\$ (53,025)</u>	<u>11,061</u>	<u>(41,964)</u>

See accompanying independent auditor's report.

City of Stratford, Iowa
Schedule of Indebtedness
Year ended June 30, 2008

<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
Water	Oct 24, 2007	5.60 %	\$ 315,000
Total			
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>
7,502	-	7,502	-	425	-
<u>295,000</u>	<u>-</u>	<u>40,000</u>	<u>255,000</u>	<u>10,788</u>	<u>-</u>
<u>\$ 302,502</u>	<u>-</u>	<u>47,502</u>	<u>255,000</u>	<u>11,213</u>	<u>-</u>
\$ 120,000	-	22,000	98,000	3,600	-
<u>-</u>	<u>315,000</u>	<u>27,000</u>	<u>288,000</u>	<u>10,680</u>	<u>-</u>
<u>\$ 120,000</u>	<u>315,000</u>	<u>49,000</u>	<u>386,000</u>	<u>14,280</u>	<u>-</u>
\$ 9,294	-	9,294	-	358	-
<u>9,294</u>	<u>-</u>	<u>9,294</u>	<u>-</u>	<u>358</u>	<u>-</u>

Bond and Note Maturities

June 30, 2008

Year Ending <u>June 30,</u>	Revenue Bonds				
	Sewer		Water		Total
	Issued June 1, 1992		Issued October 24, 2007		
Interest			Interest		
	<u>Rates</u>	<u>Amount</u>	<u>Rates</u>	<u>Amount</u>	
2009	5.60 %	23,000	3.00 %	28,000	51,000
2010	5.60 %	24,000	3.00 %	29,000	53,000
2011	5.60 %	25,000	3.00 %	30,000	55,000
2012	5.60 %	26,000	3.00 %	31,000	57,000
2013		-	3.00 %	32,000	32,000
2014		-	3.00 %	33,000	33,000
2015		-	3.00 %	34,000	34,000
2016		-	3.00 %	35,000	35,000
2017		-	3.00 %	36,000	36,000
Total		<u>\$ 98,000</u>		<u>\$ 288,000</u>	<u>\$ 386,000</u>

(continued)

Bond and Note Maturities

June 30, 2008

Year Ending <u>June 30,</u>	<u>General Obligation Notes</u>	
	<u>Swimming Pool</u>	
	<u>Issued May 1, 2004</u>	
	Interest	
	<u>Rates</u>	<u>Amount</u>
2009	3.20 %	40,000
2010	3.45 %	40,000
2011	3.70 %	40,000
2012	3.90 %	45,000
2013	4.05 %	45,000
2014	4.20 %	45,000
Total		<u>\$ 255,000</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>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
Receipts:				
Property tax	\$ 191,707	195,734	169,558	180,707
Tax increment financing collections	19,949	30,369	56,344	30,156
Other city tax	53,900	60,808	50,711	49,108
Licenses and permits	1,356	1,137	980	1,135
Use of money and property	6,741	14,477	37,814	19,149
Intergovernmental	93,699	107,879	86,766	99,355
Charges for service	77,112	216,285	15,144	13,839
Miscellaneous	<u>38,087</u>	<u>53,996</u>	<u>17,729</u>	<u>6,653</u>
 Total	 <u>\$ 482,551</u>	 <u>680,685</u>	 <u>435,046</u>	 <u>400,102</u>
Disbursements:				
Operating:				
Public safety	\$ 79,166	201,417	80,342	76,195
Public works	75,672	26,480	77,875	69,353
Health and social services	2,702	6,793	1,110	3,324
Culture and recreation	138,220	135,208	102,864	71,218
Community and economic development	4,529	750	52,469	1,175
General government	81,081	71,292	109,257	93,911
Debt service	68,698	166,923	143,357	77,247
Capital projects	<u>-</u>	<u>-</u>	<u>73,233</u>	<u>435,196</u>
 Total	 <u>\$ 450,068</u>	 <u>608,863</u>	 <u>640,507</u>	 <u>827,619</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, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 5, 2009. 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-08 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, 2008 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

January 5, 2009

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2008

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-08 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 - We will continue our review.

Conclusion - Response accepted.

I-B-08 Preparation of Financial Statements, Including Disclosures to Financial Statements
- As is common with an entity of this size, the City has engaged the auditing firm to prepare the financial statements, including disclosures. The Auditing Standards Board requires us to notify you this is considered a significant deficiency.

Recommendation - The City's personnel should continue to review the preliminary draft of the audit report before issuance.

Response - We will continue to do this.

Conclusion - Response accepted.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2008

Part II: Other Findings Related to Statutory Reporting:

II-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 did not exceed the amounts budgeted.

II-B-08 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-08 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-08 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 \$34,367 for the year ended June 30, 2008. 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.

II-E-08 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-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-08 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.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2008

II-H-08 Revenue Bonds – The City had a deficit unreserved balance in the Sewer Utility Account at June 30, 2008.

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 raised our sewer rates effective November 2007. We are confident this will resolve the problem.

Conclusion – Response accepted.

II-I-08 Financial Condition – As noted in notes to financial statements, footnote eight, there were two funds with deficit balances at June 30, 2008.

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, for how City officials plan to resolve this situation.

Conclusion – Response accepted.