

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, 2010

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City of Stratford, Iowa

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|----------------|---------------------|
| (Before January 2010) | | |
| 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 2010 |
| Rachel Cahill | Manager/Clerk | Indefinite |
| Alan C. Schroeder | Attorney | Indefinite |
| (After January 2010) | | |
| Mike Nepereny | Mayor | Jan 2014 |
| Rick Woodard | Mayor Pro Tem | Jan 2012 |
| Aaron Bradley | Council Member | Jan 2012 |
| Amber Shroyer | Council Member | Jan 2014 |
| Julie Ehresmann | Council Member | Jan 2014 |
| Brian Wilde | Council Member | Jan 2014 |
| Rachel Cahill | Manager/Clerk | 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, 2010, 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, 2010, 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 26, 2010 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 on 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 25 through 27 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 five years ended June 30, 2009 (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

October 26, 2010

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 FINANCIAL HIGHLIGHTS

* Revenues of the City's governmental activities increased 3.79%, or \$19,483, from fiscal 2009 to fiscal 2010. Even though property tax and charges for services receipts decreased, the increase in dollars was primarily due to an increase in road use tax receipts and Federal and State grant funding received.

* Disbursements from the City's governmental activities increased by 15% or \$64,431. The disbursements for general government, culture and recreation purposes decreased by a total of 11.94%, but the overall increase is primarily due to monies paid from Local Option Sales & Service Tax funds for asphaltting Moore Street and monies paid out for the Storm Sewer on Moore project.

* The City's total cash basis net assets increased 14.68%, or \$166,709, from June 30, 2009 to June 30, 2010. Of this amount, the assets of the governmental activities increased \$60,106 and the assets of the business type activities increased by \$106,603.

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 Governmental Fund Financial Statement tells 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 Rescue, Road Use Tax, Local Option Sales & Service Tax, Library Trust, Employee Benefit, and Urban Renewal Tax Increment, 3) the Debt Service Fund, 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 non major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

Changes in Cash Basis Net Assets of Governmental Activities

| | Year ended June 30, | |
|---|---------------------|----------------|
| | 2010 | 2009 |
| Receipts and transfers: | | |
| Program Receipts: | | |
| Charges for service | \$ 76,427 | \$ 80,478 |
| Operating grants, contributions and restricted interest | 110,623 | 92,923 |
| Capital grants, contributions and restricted interest | - | - |
| General receipts: | | |
| Property tax | 219,740 | 222,279 |
| Local option sales tax | 54,434 | 57,354 |
| Unrestricted interest on investments | 1,971 | 1,868 |
| Other general receipts | 59,336 | 58,043 |
| Transfers, net | <u>10,385</u> | <u>12,718</u> |
| Total receipts and transfers | <u>532,916</u> | <u>513,433</u> |
| Disbursements: | | |
| Public safety | 98,896 | 92,343 |
| Public works | 126,917 | 39,470 |
| Health and social services | 5,647 | 3,243 |
| Culture and recreation | 130,831 | 146,713 |
| Community and economic development | 8,525 | 14,184 |
| General government | 53,667 | 62,818 |
| Debt service | 48,327 | 49,608 |
| Capital projects | - | - |
| Total disbursements | <u>472,810</u> | <u>408,379</u> |
| Increase (decrease) in cash basis net assets | 60,106 | 105,054 |

| | | |
|---|-------------------|-------------------|
| Cash basis net assets beginning of year | <u>414,360</u> | <u>297,076</u> |
| Cash basis net assets end of year | <u>\$ 474,466</u> | <u>\$ 414,360</u> |

The City's total receipts for governmental activities increased by 2.33% or \$19,483.00. The increase in receipts was primarily the result of the use of an increase in road use tax revenue, grant funding received such as I-Jobs, Hazard Mitigation, Build With Bags, and local donations for park equipment, an increase in the payment in lieu of taxes from the electric fund for \$18,095 and additional revenue received by the Library for their trust fund.

The City's total expenditures for governmental activities increased by 15.77% or \$64,431. This was primarily due to expenses required for a fire vehicle renovate, the Moore Street storm sewer project, additions and upgrades to park play equipment and buildings, and the use of grant monies received.

Changes in Cash Basis Net Assets of Business Type Activities

| | Year ended June 30, | |
|---|---------------------|------------------|
| | 2010 | 2009 |
| Receipts: | | |
| Program Receipts: | | |
| Charges for services: | | |
| Water | \$137,668 | \$123,035 |
| Electric | 591,106 | 523,534 |
| Garbage and Landfill | 104,768 | 98,803 |
| Sewer | 91,049 | 79,000 |
| Miscellaneous | 79,616 | 60,530 |
| Bond Proceeds | 88,035 | 89,837 |
| Loan proceeds | - | - |
| Total Receipts | <u>1,092,242</u> | <u>974,739</u> |
| Disbursements and transfers: | | |
| Water | 110,925 | 128,529 |
| Electric | 487,623 | 492,230 |
| Garbage and Landfill | 100,822 | 96,334 |
| Sewer | 62,663 | 66,082 |
| Capital Projects | 70,250 | 24,824 |
| Debt Service | 142,971 | 69,203 |
| Transfers | 10,385 | 12,718 |
| Total disbursements | <u>985,639</u> | <u>889,920</u> |
| Increase (decrease) in cash balance | 106,603 | 84,819 |
| Cash basis net assets beginning of year | <u>720,743</u> | <u>635,924</u> |
| Cash basis net assets end of year | <u>\$827,346</u> | <u>\$720,743</u> |

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The water fund cash balance showed an increase of \$27,489. This cash balance difference reflects water plant interim financing payments and a transfer from an electric fund certificate of deposit to pay down \$72,500 on the water main revenue note. The City is still having increased costs of maintaining outdated water plant equipment, however rates were increased for the water

main revenue note in August of 2009. The City has physically begun the process of building a new drinking water plant financed with \$300,000 from CDBG, a third of the project cost up to \$300,000 financed with ARRA funds and the balance financed by revenue bonding. The plant has an anticipated completion date of December, 2010. The water fund will be monitored closely as the water plant project progresses.

The electric fund cash balance showed an increase of \$68,075. This net change is largely due to strong efforts towards efficiency in operating costs which will need to continue since in June of 2010, Midland Power Cooperative informed the City of previous years billing errors; as a result the next fiscal year will reflect correct and increased billings to the City. Citizens were correctly billed by the City, Midland Power Cooperative overall under billed the City, but forgave the under billing.

The wastewater fund cash balance showed an increase of \$4,441. This was primarily due to a rate increase in August of 2009 and concerted efforts towards operating efficiency. Another move towards a rate increase aimed strictly at the deficit was initiated in August of 2010. This fund is being closely monitored by the City.

The garbage and landfill fund cash balance showed an increase of \$6,598. This was primarily due to the fees collected for a landfill assessment. The City withdrew from the Hamilton County Solid Waste Landfill Commission June 30, 2010. Garbage and the relating landfill assessment fees will be taken directly to the Fort Dodge Landfill beginning in Fiscal Year 2011.

BUDGETARY HIGHLIGHTS

The City will keep on monitoring all funds, particularly the deficit sewer fund, and make sure that rates for all the proprietary funds are adequate to cover needed revenue bonds, and expenses. The City will continue to budget for capital projects. Close fund monitoring of Federal Grant funds includes the Drinking Water Plant project, the upcoming Housing Rehabilitation project, and the forthcoming Downtown Revitalization project.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$564,542 in bonds; which includes \$182,542 in bonding towards the Drinking Water Treatment Plant project. 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. Construction that has started on the new water plant will result in additional revenue bonding.

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 2011 budget, tax rates and fees that will be charged for various

City activities. General fund fees remained the same, budgets within the General fund were reviewed extremely closely and had almost no increases, and employee pay rates were frozen again due to the unsure economy. Council understands the need to continue to have segregated duties to prevent loss from employee error and maximize accuracy of City's financial statements with the necessity of striving to be cost and energy efficient ever present.

Another of the major factors taken into account was the need to increase water rates for the Drinking Water Plant project and sewer rates to take care of the deficit and the necessity 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.

Other factors taken into account when setting the budget included a review of the decline in property 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. The City's overall levy rate increased from \$15.69351 to \$16.52469 from fiscal 2010 to fiscal 2011.

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 50249-0218. Phone number is 515-838-2311. E-mail is cityofstratford@globalccs.net.

Basic Financial Statements

City of Stratford, Iowa
Statement of Activities and Net Assets - Cash Basis
As of and for the year ended June 30, 2010

| | | Program Receipts | | |
|------------------------------------|---------------|---------------------|--|--|
| | Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest | Capital Grants, Contributions, and Restricted Interest |
| Functions/Programs: | | | | |
| Governmental activities: | | | | |
| Public safety | \$ 98,896 | 63,687 | 37,473 | - |
| Public works | 126,917 | - | 69,200 | - |
| Health and social services | 5,647 | - | - | - |
| Culture and recreation | 130,831 | - | - | - |
| Community and economic development | 8,525 | 12,740 | 3,950 | - |
| General government | 53,667 | - | - | - |
| Debt service | 48,327 | - | - | - |
| Total governmental activities | 472,810 | 76,427 | 110,623 | - |
| Business type activities: | | | | |
| Water | 282,386 | 137,668 | - | - |
| Electric | 503,133 | 591,106 | - | - |
| Garbage and landfill | 100,822 | 104,768 | - | - |
| Sewer | 88,913 | 91,049 | - | - |
| Total business type activities | 975,254 | 924,591 | - | - |
| Total | \$ 1,448,064 | 1,001,018 | 110,623 | - |

General Receipts:

Property and other city tax levied for:
 General purposes
 Debt service
Local option sales tax
Unrestricted interest on investments
Bond proceeds
Miscellaneous
Transfers
Total general receipts and transfers
Change in cash basis net assets
Cash basis net assets beginning of year
Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Expendable:
 Streets
 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 |
|----------------------------|-----------------------------|------------------|
| 2,264 | - | 2,264 |
| (57,717) | - | (57,717) |
| (5,647) | - | (5,647) |
| (130,831) | - | (130,831) |
| 8,165 | - | 8,165 |
| (53,667) | - | (53,667) |
| <u>(48,327)</u> | <u>-</u> | <u>(48,327)</u> |
| <u>(285,760)</u> | <u>-</u> | <u>(285,760)</u> |
| - | (144,718) | (144,718) |
| - | 87,973 | 87,973 |
| - | 3,946 | 3,946 |
| <u>-</u> | <u>2,136</u> | <u>2,136</u> |
| <u>-</u> | <u>(50,663)</u> | <u>(50,663)</u> |
| <u>(285,760)</u> | <u>(50,663)</u> | <u>(336,423)</u> |
| 171,463 | - | 171,463 |
| 48,277 | - | 48,277 |
| 54,434 | - | 54,434 |
| 1,971 | 12,612 | 14,583 |
| - | 88,035 | 88,035 |
| 59,336 | 67,004 | 126,340 |
| <u>10,385</u> | <u>(10,385)</u> | <u>-</u> |
| <u>345,866</u> | <u>157,266</u> | <u>503,132</u> |
| 60,106 | 106,603 | 166,709 |
| <u>414,360</u> | <u>720,743</u> | <u>1,135,103</u> |
| <u>\$ 474,466</u> | <u>827,346</u> | <u>1,301,812</u> |
| \$ 98,179 | - | 98,179 |
| 1,566 | 3,516 | 5,082 |
| 307,737 | - | 307,737 |
| <u>66,984</u> | <u>823,830</u> | <u>890,814</u> |
| <u>\$ 474,466</u> | <u>827,346</u> | <u>1,301,812</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, 2010

Exhibit B

| | <u>General</u> | <u>Nonmajor Governmental Funds</u> | <u>Total</u> |
|--|----------------|--|--------------|
| Receipts: | | | |
| Property tax | \$ 143,344 | 76,396 | 219,740 |
| Other city tax | - | 54,434 | 54,434 |
| Licenses and permits | 1,298 | - | 1,298 |
| Use of money and property | 943 | 1,738 | 2,681 |
| Intergovernmental | 37,473 | 76,150 | 113,623 |
| Charges for service | 12,740 | 62,389 | 75,129 |
| Miscellaneous | 49,875 | 5,751 | 55,626 |
| Total receipts | 245,673 | 276,858 | 522,531 |
| Disbursements: | | | |
| Operating: | | | |
| Public safety | 38,429 | 60,467 | 98,896 |
| Public works | 29,437 | 97,480 | 126,917 |
| Health and social services | 4,974 | 673 | 5,647 |
| Culture and recreation | 123,189 | 7,642 | 130,831 |
| Community and economic development | 8,525 | - | 8,525 |
| General government | 48,093 | 5,574 | 53,667 |
| Debt service | - | 48,327 | 48,327 |
| Total disbursements | 252,647 | 220,163 | 472,810 |
| Excess (deficiency) of receipts over (under) disbursements | (6,974) | 56,695 | 49,721 |
| Other financing sources (uses): | | | |
| Operating transfers in | 22,095 | 23,656 | 45,751 |
| Operating transfers out | (12,898) | (22,468) | (35,366) |
| Total other financing sources (uses) | 9,197 | 1,188 | 10,385 |
| Net change in cash balances | 2,223 | 57,883 | 60,106 |
| Cash balances beginning of year | 10,052 | 404,308 | 414,360 |
| Cash balances end of year | \$ 12,275 | 462,191 | 474,466 |
| Cash Basis Fund Balances | | | |
| Reserved: | | | |
| Debt service | \$ - | 1,566 | 1,566 |
| Unreserved: | | | |
| General fund | 12,275 | - | 12,275 |
| Special revenue funds | - | 405,916 | 405,916 |
| Capital project funds | - | 54,709 | 54,709 |
| Total cash basis fund balances | \$ 12,275 | 462,191 | 474,466 |

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, 2010

| | Enterprise Funds | | | | Total |
|---|------------------|---------------------|-----------------------|--------------------|------------------|
| | Water Utility | Electric Utility | Garbage & Landfill | Nonmajor- Funds | |
| Operating receipts: | | | | | |
| Charges for service | \$ 137,668 | 591,106 | 104,768 | 91,049 | 924,591 |
| Miscellaneous | <u>11,672</u> | <u>50,375</u> | <u>2,652</u> | <u>2,305</u> | <u>67,004</u> |
| Total operating receipts | <u>149,340</u> | <u>641,481</u> | <u>107,420</u> | <u>93,354</u> | <u>991,595</u> |
| Operating disbursements: | | | | | |
| Business type activities | <u>110,925</u> | <u>487,623</u> | <u>100,822</u> | <u>62,663</u> | <u>762,033</u> |
| Total operating disbursements | <u>110,925</u> | <u>487,623</u> | <u>100,822</u> | <u>62,663</u> | <u>762,033</u> |
| Excess of operating receipts over operating disbursements | <u>38,415</u> | <u>153,858</u> | <u>6,598</u> | <u>30,691</u> | <u>229,562</u> |
| Non-operating receipts (disbursements): | | | | | |
| Miscellaneous | | 12,612 | - | - | 12,612 |
| Bond proceeds | 88,035 | - | - | - | 88,035 |
| Capital projects | (54,740) | (15,510) | - | - | (70,250) |
| Debt service | <u>(116,721)</u> | <u>-</u> | <u>-</u> | <u>(26,250)</u> | <u>(142,971)</u> |
| Total non-operating receipts (disbursements) | <u>(83,426)</u> | <u>(2,898)</u> | <u>-</u> | <u>(26,250)</u> | <u>(112,574)</u> |
| Excess (deficiency) of receipts over (under) disbursements | (45,011) | 150,960 | 6,598 | 4,441 | 116,988 |
| Operating transfers in (out) | <u>72,500</u> | <u>(82,885)</u> | <u>-</u> | <u>-</u> | <u>(10,385)</u> |
| Net change in cash balances | 27,489 | 68,075 | 6,598 | 4,441 | 106,603 |
| Cash balances beginning of year | <u>35,279</u> | <u>733,571</u> | <u>16,017</u> | <u>(64,124)</u> | <u>720,743</u> |
| Cash balances end of year | <u>\$ 62,768</u> | <u>801,646</u> | <u>22,615</u> | <u>(59,683)</u> | <u>827,346</u> |
| Cash Basis Fund Balances | | | | | |
| Reserved for debt service | 469 | - | - | 3,047 | 3,516 |
| Unreserved | <u>62,299</u> | <u>801,646</u> | <u>22,615</u> | <u>(62,730)</u> | <u>823,830</u> |
| Total cash basis fund balances | <u>\$ 62,768</u> | <u>801,646</u> | <u>22,615</u> | <u>(59,683)</u> | <u>827,346</u> |

See notes to financial statements.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

(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, 2010

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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 categories. 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.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

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 funds.

The City reports the following major governmental funds:

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

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.

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

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, 2010

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.

(2) **Cash**

The City's deposits in banks at June 30, 2010 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.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

The city had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$100,027 pursuant to Rule 2a-7 under the Investment Company Act of 1940.

Credit risk – The city’s investment in the Iowa Public Agency Investment Trust in unrated.

(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 | | Revenue Bonds | |
|-------------|--------------------|----------|---------------|----------|
| | Principal | Interest | Principal | Interest |
| June 30, | | | | |
| 2011 | \$ 40,000 | 6,948 | 72,000 | 14,650 |
| 2012 | 45,000 | 5,467 | 74,000 | 11,920 |
| 2013 | 45,000 | 3,713 | 50,000 | 9,111 |
| 2014 | 45,000 | 1,890 | 52,000 | 7,003 |
| 2015 | - | - | 49,000 | 4,817 |
| 2016-2020 | - | - | 92,542 | 7,672 |
| Total | \$ 175,000 | 18,018 | 389,542 | 55,173 |
| | ===== | ===== | ===== | ===== |

| Year Ending | Total | |
|-------------|------------|----------|
| | Principal | Interest |
| June 30, | | |
| 2011 | \$ 112,000 | 21,598 |
| 2012 | 119,000 | 17,387 |
| 2013 | 95,000 | 12,824 |
| 2014 | 97,000 | 8,893 |
| 2015 | 49,000 | 4,817 |
| 2016-2020 | 92,542 | 7,672 |
| Total | \$ 564,542 | 73,191 |
| | ===== | ===== |

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$350,000 in sewer revenue bonds issued in June 1992. Proceeds from the notes provided financing for capital improvements to the sewer system. The notes are payable solely from sewer customer net receipts and are payable through 2012. The total principal and interest remaining to be paid on the bonds is \$53,310. For the current year, principal and interest paid and total customer net receipts were \$26,250 and \$30,691, respectively.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$315,000 in water revenue bonds issued in October 2007. Proceeds from the notes provided financing for the construction of improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2015. The total principal and interest remaining to be paid on the bonds is \$179,030. For the current year, principal and interest paid and total customer net receipts were \$114,804 and \$38,415.

The City also has pledged future water customer receipts, net of specified operating disbursements, to repay \$467,000 in water revenue bonds issued in February 2010. Proceeds from the notes provided financing for the construction of a new water plant. The notes are payable solely from water customer net receipts and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 90 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$212,375 with future draws of \$284,458 to be taken in the next fiscal year. For the current year, there were no principal payments made. Interest paid and total customer net receipts were \$1,470 and \$38,415.

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.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

- (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.
- (e) The Water Revenue Fund must produce and maintain net revenues at a level not less than 110% of the amount of principal and interest on the revenue bond issued in February 2010 due in any one year.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

(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 4.30% of their annual salary and the City is required to contribute 6.65% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2010, 2009, and 2008 were \$11,611, \$11,218, and \$10,093, respectively, equal to the required contributions for each year.

(5) Other Postemployment Benefits (OPEB)

Plan description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are five active and no retired members in the plan. Participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The city currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$522 for single coverage and \$1,306 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2010, the City contributed \$27,435 and plan members eligible for benefits contributed \$ 0 to the plan.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2010

(6) 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, 2010, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|---------------|
| Vacation | \$ 5,800 |
| | ===== |

This liability has been computed based on rates of pay in effect at June 30, 2010.

(7) 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, 2010

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

| <u>Transfer to</u> | <u>Transfer From</u> | <u>Amount</u> |
|--|---|---------------------|
| General | Special Revenue: Emergency | \$ 3,700 |
| | Enterprise: Electric | 18,395 |
| Special Revenue: I-Jobs Revenue | Special Revenue: Road Use | 3,258 |
| Library Trust | General | 1,050 |
| Capital Projects: Capital Improvement | General | 11,848 |
| | Enterprise: Water | 2,500 |
| | Electric | 5,000 |
| Enterprise: Electric | Capital Projects: Capital Improvements | 15,510 |
| Water | Enterprise: Electric | <u>75,000</u> |
| Total | | \$ 136,261 ===== |

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, 2010

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$39,822 during the year ended June 30, 2010.

(10) Deficit Fund Balances

The Enterprise Fund, Sewer Utility Account had a deficit balance of \$59,683 at June 30, 2010. The City had a rate study and increased rates effective October 2009 and again in August 2010. This rate increase should eventually return this account to a positive financial position.

(11) Commitments

The City of Stratford has committed to a water improvement project for approximately \$850,000. As of June 30, 2010 \$62,000 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. The City has also been awarded several grants for approximately \$700,000 which will help fund housing rehabilitation, downtown revitalization and energy efficiency.

(12) Subsequent Events

The City has evaluated subsequent events through October 29, 2010, the date the financial statements were available to be issued.

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, 2010

| | Governmental Funds <u>Actual</u> | Proprietary Funds <u>Actual</u> |
|--|--|---------------------------------------|
| Receipts: | | |
| Property tax | \$ 219,740 | - |
| Other city tax | 54,434 | - |
| Licenses and permits | 1,298 | - |
| Use of money and property | 2,681 | - |
| Intergovernmental | 113,623 | - |
| Charges for service | 75,129 | 924,591 |
| Miscellaneous | 55,626 | 79,616 |
| Total receipts | <u>522,531</u> | <u>1,004,207</u> |
| Disbursements: | | |
| Public safety | 98,896 | - |
| Public works | 126,917 | - |
| Health and social services | 5,647 | - |
| Culture and recreation | 130,831 | - |
| Community and economic development | 8,525 | - |
| General government | 53,667 | - |
| Debt service | 48,327 | - |
| Capital projects | - | - |
| Business type activities | - | 975,254 |
| Total disbursements | <u>472,810</u> | <u>975,254</u> |
| Excess (deficiency) of receipts over (under) disbursements | 49,721 | 28,953 |
| Other financing sources, net | <u>10,385</u> | <u>77,650</u> |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | 60,106 | 106,603 |
| Balances beginning of year | <u>414,360</u> | <u>720,743</u> |
| Balances end of year | <u>\$ 474,466</u> | <u>827,346</u> |

See accompanying independent auditor's report.

| <u>Net</u> | <u>Original</u> | <u>Final</u> | Final to Net <u>Variance</u> |
|-------------------------|-------------------------|-------------------------|------------------------------------|
| 219,740 | 282,497 | 282,497 | (62,757) |
| 54,434 | - | - | 54,434 |
| 1,298 | 1,190 | 1,190 | 108 |
| 2,681 | 15,000 | 2,900 | (219) |
| 113,623 | 1,076,817 | 810,792 | (697,169) |
| 999,720 | 979,806 | 1,045,806 | (46,086) |
| 135,242 | 50,000 | 88,600 | 46,642 |
| <u>1,526,738</u> | <u>2,405,310</u> | <u>2,231,785</u> | <u>(705,047)</u> |
| 98,896 | 86,112 | 103,950 | 5,054 |
| 126,917 | 108,247 | 143,879 | 16,962 |
| 5,647 | 6,270 | 6,270 | 623 |
| 130,831 | 129,767 | 139,281 | 8,450 |
| 8,525 | 13,200 | 9,800 | 1,275 |
| 53,667 | 87,440 | 69,026 | 15,359 |
| 48,327 | 48,328 | 48,328 | 1 |
| - | 980,000 | 665,423 | 665,423 |
| 975,254 | 854,315 | 1,006,341 | 31,087 |
| <u>1,448,064</u> | <u>2,313,679</u> | <u>2,192,298</u> | <u>78,811</u> |
| 78,674 | 91,631 | 39,487 | (626,236) |
| <u>88,035</u> | <u>-</u> | <u>(3,259)</u> | <u>91,294</u> |
| 166,709 | 91,631 | 36,228 | (534,942) |
| <u>1,135,103</u> | <u>1,077,655</u> | <u>1,077,655</u> | <u>57,448</u> |
| <u><u>1,301,812</u></u> | <u><u>1,169,286</u></u> | <u><u>1,113,883</u></u> | <u><u>(477,494)</u></u> |

City of Stratford, Iowa

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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. 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, 2010, one budget amendment decreased budgeted disbursements by \$121,381, budgeted receipts by \$173,525, and other financing sources by \$3,259. The budget amendments are reflected in the final budgeted amounts.

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, 2010

| | Special | | | | |
|--|------------------|-------------------|----------------|-----------------|----------------|
| | Road Use | Trust & Agency | Emergency | LOST Streets | LOST Pool |
| Receipts: | | | | | |
| Property tax | \$ - | 24,370 | 3,749 | - | - |
| Tax increment financing | - | - | - | - | - |
| Other city tax | - | - | - | 27,217 | 27,217 |
| Use of money and property | - | - | - | - | - |
| Intergovernmental | 69,200 | - | - | - | - |
| Charges for service | - | - | - | - | - |
| Miscellaneous | - | - | - | - | - |
| Total receipts | <u>69,200</u> | <u>24,370</u> | <u>3,749</u> | <u>27,217</u> | <u>27,217</u> |
| Disbursements: | | | | | |
| Operating: | | | | | |
| Public safety | - | 4,095 | - | - | - |
| Public works | 21,429 | 2,679 | - | 64,310 | - |
| Health and social services | - | 673 | - | - | - |
| Culture and recreation | - | 7,642 | - | - | - |
| General government | - | 5,574 | - | - | - |
| Debt service | - | - | - | - | - |
| Total disbursements | <u>21,429</u> | <u>20,663</u> | <u>-</u> | <u>64,310</u> | <u>-</u> |
| Excess (deficiency) of receipts over (under) disbursements | <u>47,771</u> | <u>3,707</u> | <u>3,749</u> | <u>(37,093)</u> | <u>27,217</u> |
| Other financing sources (uses): | | | | | |
| Operating transfers in | - | - | - | - | - |
| Operating transfers (out) | (3,258) | - | (3,700) | - | - |
| Total other financing sources (uses) | <u>(3,258)</u> | <u>-</u> | <u>(3,700)</u> | <u>-</u> | <u>-</u> |
| Net change in cash balances | 44,513 | 3,707 | 49 | (37,093) | 27,217 |
| Cash balances beginning of year | 53,666 | 3,243 | 126 | 86,026 | 81,846 |
| Cash balances end of year | <u>\$ 98,179</u> | <u>6,950</u> | <u>175</u> | <u>48,933</u> | <u>109,063</u> |
| Cash Basis Fund Balances | | | | | |
| Reserved: | | | | | |
| Debt service | \$ - | - | - | - | - |
| Unreserved: | | | | | |
| Special revenue funds | 98,179 | 6,950 | 175 | 48,933 | 109,063 |
| Capital project funds | - | - | - | - | - |
| Total cash basis fund balances | <u>\$ 98,179</u> | <u>6,950</u> | <u>175</u> | <u>48,933</u> | <u>109,063</u> |

See accompanying independent auditor's report

Schedule 1

| Revenue | | | | | | |
|----------------------|---------------------------|-----------------------|----------------|---------------------|-------------------------|----------------|
| <u>Library Trust</u> | <u>Community Disaster</u> | <u>I-Jobs Revenue</u> | <u>Rescue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> |
| - | - | - | - | 48,277 | - | 76,396 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 54,434 |
| - | - | - | 1,738 | - | - | 1,738 |
| 3,000 | 3,950 | - | - | - | - | 76,150 |
| - | - | - | 62,389 | - | - | 62,389 |
| 5,751 | - | - | - | - | - | 5,751 |
| <u>8,751</u> | <u>3,950</u> | <u>-</u> | <u>64,127</u> | <u>48,277</u> | <u>-</u> | <u>276,858</u> |
| - | 3,950 | - | 52,422 | - | - | 60,467 |
| - | 5,804 | 3,258 | - | - | - | 97,480 |
| - | - | - | - | - | - | 673 |
| - | - | - | - | - | - | 7,642 |
| - | - | - | - | - | - | 5,574 |
| - | - | - | - | 48,327 | - | 48,327 |
| - | 9,754 | 3,258 | 52,422 | 48,327 | - | 220,163 |
| <u>8,751</u> | <u>(5,804)</u> | <u>(3,258)</u> | <u>11,705</u> | <u>(50)</u> | <u>-</u> | <u>56,695</u> |
| 1,050 | - | 3,258 | - | - | 19,348 | 23,656 |
| - | - | - | - | - | (15,510) | (22,468) |
| <u>1,050</u> | <u>-</u> | <u>3,258</u> | <u>-</u> | <u>-</u> | <u>3,838</u> | <u>1,188</u> |
| 9,801 | (5,804) | - | 11,705 | (50) | 3,838 | 57,883 |
| 12,785 | 5,804 | - | 108,325 | 1,616 | 50,871 | 404,308 |
| <u>22,586</u> | <u>-</u> | <u>-</u> | <u>120,030</u> | <u>1,566</u> | <u>54,709</u> | <u>462,191</u> |
| - | - | - | - | 1,566 | - | 1,566 |
| 22,586 | - | - | 120,030 | - | - | 405,916 |
| - | - | - | - | - | 54,709 | 54,709 |
| <u>22,586</u> | <u>-</u> | <u>-</u> | <u>120,030</u> | <u>1,566</u> | <u>54,709</u> | <u>462,191</u> |

Schedule 1

| Revenue | | | | | | |
|----------------------|---------------------------|-----------------------|----------------|---------------------|-------------------------|----------------|
| <u>Library Trust</u> | <u>Community Disaster</u> | <u>I-Jobs Revenue</u> | <u>Rescue</u> | <u>Debt Service</u> | <u>Capital Projects</u> | <u>Total</u> |
| - | - | - | - | 48,277 | - | 76,396 |
| - | - | - | - | - | - | - |
| - | - | - | - | - | - | 54,434 |
| - | - | - | 1,738 | - | - | 1,738 |
| 3,000 | 3,950 | - | - | - | - | 76,150 |
| - | - | - | 62,389 | - | - | 62,389 |
| <u>5,751</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>5,751</u> |
| <u>8,751</u> | <u>3,950</u> | <u>-</u> | <u>64,127</u> | <u>48,277</u> | <u>-</u> | <u>276,858</u> |
| - | 3,950 | - | 52,422 | - | - | 60,467 |
| - | 5,804 | 3,258 | - | - | - | 97,480 |
| - | - | - | - | - | - | 673 |
| - | - | - | - | - | - | 7,642 |
| - | - | - | - | - | - | 5,574 |
| - | - | - | - | 48,327 | - | 48,327 |
| - | <u>9,754</u> | <u>3,258</u> | <u>52,422</u> | <u>48,327</u> | <u>-</u> | <u>220,163</u> |
| <u>8,751</u> | <u>(5,804)</u> | <u>(3,258)</u> | <u>11,705</u> | <u>(50)</u> | <u>-</u> | <u>56,695</u> |
| 1,050 | - | 3,258 | - | - | 19,348 | 23,656 |
| - | - | - | - | - | (15,510) | (22,468) |
| <u>1,050</u> | <u>-</u> | <u>3,258</u> | <u>-</u> | <u>-</u> | <u>3,838</u> | <u>1,188</u> |
| 9,801 | (5,804) | - | 11,705 | (50) | 3,838 | 57,883 |
| <u>12,785</u> | <u>5,804</u> | <u>-</u> | <u>108,325</u> | <u>1,616</u> | <u>50,871</u> | <u>404,308</u> |
| <u>22,586</u> | <u>-</u> | <u>-</u> | <u>120,030</u> | <u>1,566</u> | <u>54,709</u> | <u>462,191</u> |
| - | - | - | - | 1,566 | - | 1,566 |
| 22,586 | - | - | 120,030 | - | - | 405,916 |
| - | - | - | - | - | 54,709 | 54,709 |
| <u>22,586</u> | <u>-</u> | <u>-</u> | <u>120,030</u> | <u>1,566</u> | <u>54,709</u> | <u>462,191</u> |

City of Stratford, Iowa
 Schedule of Indebtedness
 Year ended June 30, 2010

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rates</u> | <u>Amount Originally Issued</u> |
|---------------------------|--------------------------|---------------------------|---|
| General obligation notes: | | | |
| 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 | 4.90 % | \$ 315,000 |
| Water | Feb 3, 2010 | 3.00 % | \$ 467,000 |
| Total | | | |

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> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| 215,000 | - | 40,000 | 175,000 | 8,327 | - |
| <u>\$ 215,000</u> | <u>-</u> | <u>40,000</u> | <u>175,000</u> | <u>8,327</u> | <u>-</u> |
| | | | | | |
| \$ 75,000 | - | 24,000 | 51,000 | 2,250 | - |
| 260,000 | - | 104,000 | 156,000 | 10,804 | - |
| <u>-</u> | <u>182,542</u> | <u>-</u> | <u>182,542</u> | <u>1,470</u> | <u>-</u> |
| <u>\$ 335,000</u> | <u>182,542</u> | <u>128,000</u> | <u>389,542</u> | <u>14,524</u> | <u>-</u> |

Bond and Note Maturities

June 30, 2010

| Year Ending <u>June 30,</u> | Revenue Bonds | | | |
|-----------------------------------|---------------------|------------------|-------------------------|-------------------|
| | Sewer | | Water | |
| | Issued June 1, 1992 | | Issued October 24, 2007 | |
| | Interest | | Interest | |
| | <u>Rates</u> | <u>Amount</u> | <u>Rates</u> | <u>Amount</u> |
| 2011 | 3.00 % | \$ 25,000 | 4.90 % | \$ 30,000 |
| 2012 | 3.00 | 26,000 | 4.90 | 31,000 |
| 2013 | | - | 4.90 | 32,000 |
| 2014 | | - | 4.90 | 33,000 |
| 2015 | | - | 4.90 | 30,000 |
| Total | | <u>\$ 51,000</u> | | <u>\$ 156,000</u> |

| Year Ending <u>June 30,</u> | Revenue Bonds | | |
|-----------------------------------|-------------------------|------------------|----------------|
| | Water | | |
| | Issued February 3, 2010 | | |
| | Interest | | <u>Total</u> |
| | <u>Rates</u> | <u>Amount</u> | |
| 2011 | 3.00 % | \$ 17,000 | 72,000 |
| 2012 | 3.00 | 17,000 | 74,000 |
| 2013 | 3.00 | 18,000 | 50,000 |
| 2014 | 3.00 | 19,000 | 52,000 |
| 2015 | 3.00 | 19,000 | 49,000 |
| 2016 | 3.00 | 20,000 | 20,000 |
| 2017 | 3.00 | 21,000 | 21,000 |
| 2018 | 3.00 | 21,000 | 21,000 |
| 2019 | 3.00 | 22,000 | 22,000 |
| 2020 | 3.00 | 8,542 | 8,542 |
| Total | | <u>\$182,542</u> | <u>389,542</u> |

(continued)

Bond and Note Maturities

June 30, 2010

| 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> |
| 2011 | 3.70 % | \$ 40,000 |
| 2012 | 3.90 | 45,000 |
| 2013 | 4.05 | 45,000 |
| 2014 | 4.20 | 45,000 |
| Total | | <u>\$ 175,000</u> |

See accompanying independent auditor's report.

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

For the Last Six Years

| | <u>2010</u> | <u>2009</u> | <u>2008</u> | <u>2007</u> | <u>2006</u> | <u>2005</u> |
|-------------------------------------|-----------------------|--------------------|--------------------|--------------------|--------------------|--------------------|
| Receipts: | | | | | | |
| Property tax | \$ 219,740 | \$ 222,279 | \$ 191,707 | 195,734 | 169,558 | 180,707 |
| Tax increment financing collections | - | - | 19,949 | 30,369 | 56,344 | 30,156 |
| Other city tax | 54,434 | 57,354 | 53,900 | 60,808 | 50,711 | 49,108 |
| Licenses and permits | 1,298 | 852 | 1,356 | 1,137 | 980 | 1,135 |
| Use of money and property | 2,681 | 3,233 | 6,741 | 14,477 | 37,814 | 19,149 |
| Intergovernmental | 113,623 | 96,005 | 93,699 | 107,879 | 86,766 | 99,355 |
| Charges for service | 75,129 | 79,626 | 77,112 | 216,285 | 15,144 | 13,839 |
| Miscellaneous | <u>55,626</u> | <u>53,596</u> | <u>38,087</u> | <u>53,996</u> | <u>17,729</u> | <u>6,653</u> |
| Total | <u>\$ 522,531</u> | <u>512,945</u> | <u>482,551</u> | <u>680,685</u> | <u>435,046</u> | <u>400,102</u> |
| Disbursements: | | | | | | |
| Operating: | | | | | | |
| Public safety | \$ 98,896 | \$ 92,343 | \$ 79,166 | 201,417 | 80,342 | 76,195 |
| Public works | 126,917 | 39,470 | 75,672 | 26,480 | 77,875 | 69,353 |
| Health and social services | 5,647 | 3,243 | 2,702 | 6,793 | 1,110 | 3,324 |
| Culture and recreation | 130,831 | 146,713 | 138,220 | 135,208 | 102,864 | 71,218 |
| Community and economic development | 8,525 | 14,184 | 4,529 | 750 | 52,469 | 1,175 |
| General government | 53,667 | 62,818 | 81,081 | 71,292 | 109,257 | 93,911 |
| Debt service | 48,327 | 49,608 | 68,698 | 166,923 | 143,357 | 77,247 |
| Capital projects | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> | <u>73,233</u> | <u>435,196</u> |
| Total | <u>\$ 472,810</u> | <u>408,379</u> | <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, 2010, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated October 26, 2010. 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 was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Stratford's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-A-10 to be a material weakness.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as item I-B-10 to be a significant deficiency.

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, 2010 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 26, 2010

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2010

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

I-A-10 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 two employees handle all of the financial duties, which does not allow for complete segregation of duties.

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 feel our duties are segregated to the greatest extent possible. The Council will continue their review.

Conclusion - Response accepted.

I-B-10 Preparation of Financial Statements, Including Disclosures to Financial Statements- Management is responsible for establishing and maintaining internal controls over financial reporting and procedures related to the fair presentation of the financial statements in accordance with the cash basis of accounting. The City of Stratford does not have an internal control system designed to provide for the preparation of the financial statements, including the accompanying footnotes, as required by generally accepted accounting principles. The guidance in Statement of Auditing Standards No. 115, Communicating Internal Control Related Matters Identified in an Audit, requires us to communicate this matter with those charged with governance.

As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. Outsourcing of these services is not unusual in an organization of your size.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2010

Recommendation – We realize that obtaining the expertise to prepare the financial statements, including all necessary disclosures, in accordance with generally accepted accounting principles can be considered costly and ineffective. However, it is the responsibility of the City’s management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Response – Management feels that committing the resources necessary to remain current on GAAP and GASB reporting requirements and corresponding footnote disclosures would lack benefit in relation to the cost, but will continue evaluating on a going forward basis.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-10 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted.
- II-B-10 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-10 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- II-D-10 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 \$39,309 for the year ended June 30, 2010. 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, 2010

Brian Wilde, council member, owns Wilde Repair. The City of Stratford spent \$513 with Wilde Repair for maintenance during the fiscal year ended June 30, 2010. This does not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- II-E-10 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-10 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-G-10 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-10 Revenue Bonds – The City had a deficit unreserved balance in the Sewer Utility Account at June 30, 2010.

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 October 2009 and again in August 2010. We are confident this will resolve the problem.

Conclusion – Response accepted.