

CITY OF STRATFORD, IOWA

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

AS OF AND FOR THE YEAR ENDED JUNE 30, 2012

Table of Contents

		<u>Page</u>
Officials		1
Independent Auditor’s Report		2-3
Management’s Discussion and Analysis		4-9
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10-11
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	13
Notes to Financial Statements		14-24
Other Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		25-26
Notes to Required Supplementary Information – Budgetary Reporting		27
Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	28-29
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Proprietary Funds	2	30
Schedule of Indebtedness	3	31-32
Bond and Note Maturities	4	33
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	5	34-35
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 <u>Government Auditing Standards</u>		36-38
Schedule of Findings		39-42

City of Stratford, Iowa

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
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
(After January 2012)		
Mike Nepereny	Mayor	Jan 2014
Rick Woodard	Mayor Pro Tem	Jan 2016
Aaron Bradley	Council Member	Jan 2016
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

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

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, 2012, 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, 2012, 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 November 30, 2012 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.

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 seven years ended June 30, 2011 (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. The 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 is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 25 through 27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

Cornwell, Frideres, Maher & Associates, P.L.C.
Cornwell, Frideres, Maher & Associates, P.L.C.
Certified Public Accountants

November 30, 2012

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, 2012. Readers are encouraged to consider this information in conjunction with the City's financial statements, which follow.

2012 GOVERNMENTAL FINANCIAL HIGHLIGHTS

* Revenues of the City's governmental activities increased 6.8%, or \$40,057, from fiscal 2011 to fiscal 2012. Property tax revenue increased 2.96% due to an increase in the net taxable valuations for fiscal year 2012. This is basically due to most of the new housing in the City are no longer on tax abatements. Increases in the charges for services are reflected from several areas: Rescue receipts increased 15% receipts; library trust funds received increased 28% and pool receipts were up because pool attendance was up. Due to increased activity in the CDBG housing rehabilitation and downtown revitalization projects; revenues increased. There was a 4% increase in Road Use Tax revenue and a 5% increase in Local Option Sales Tax revenue. Donations and grants for park bathhouse renovations received were reflected as an increase in revenues but expenses were not paid out in FY12. The revenue analysis for the individual major business type funds start on page 4.

* Disbursements from the City's total governmental activities decreased by 10% or \$55,612. The disbursements for General Government, Culture and Recreation purposes decreased by a total of 12%, or \$24,909, primarily due to park bathhouse renovations not yet paid for. However, Community and Economic Development expenses more than doubled due to increased activities in the CDBG housing rehabilitation and downtown revitalization projects. Public works disbursements were down 27% or \$43,302 because the Local Option Sales Tax funds were not used as much as the year before i.e. for the pool basin painting and pool chemical building renovation in FY11. The Health and Social Services function is over budget \$114 due to an oversight. The expenditure analysis for the individual major business type funds start on page 4.

* The City's total cash basis net assets which include governmental and business type activities increased \$103,746, from July 1, 2011 to June 30, 2012. Of this amount, the assets of the governmental activities increased \$101,822 and the assets of the business type activities increased by \$1,924.

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,	
	2012	2011
Receipts and transfers:		
Program Receipts:		
Charges for service	\$101,629	\$ 89,530
Operating grants, contributions and restricted interest	113,599	130,752
Capital grants, contributions and restricted interest	30,802	---
General receipts:		
Property tax	220,200	213,856
Local option sales tax	57,717	54,118
Unrestricted interest on investments	746	1,151
Other general receipts	44,813	33,833
Transfers, net	<u>20,724</u>	<u>26,933</u>
<u>Total receipts and transfers in</u>	<u>590,230</u>	<u>550,173</u>
Disbursements:		
Public safety	95,054	104,616
Public works	115,026	158,328

Health and social services	5,069	3,640
Culture and recreation	121,400	159,818
Community and economic development	40,434	18,945
General government	60,457	51,725
Debt service	50,968	46,948
Capital projects	-	-
Total disbursements	<u>488,408</u>	<u>544,020</u>
Increase (decrease) in cash basis net assets	101,822	6,153
Cash basis net assets beginning of year	<u>480,619</u>	<u>474,466</u>
Cash basis net assets end of year	<u>\$582,441</u>	<u>480,619</u>
	=====	=====

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

The water fund cash balance showed a decrease of \$6,219. The City has continued efforts in operating costs efficiencies. The City realizes the importance of upgrading old water mains which aids in eliminating water leaks which helps save in operating costs. Financing for the water treatment plant (which was completed in December of 2010) was finalized in FY 12 through Community Development Block Grant funding (CDBG), American Recovery and Reinvestment Act (ARRA) funding and the State Revolving Loan Fund. Iowa Economic Development Authority (IEDA) forgave \$308,000 financed with ARRA funds. CDBG funds paid for \$281,896 and the balance of the water plant at \$392,000 is being paid for with revenue bonding with a loan from the State Revolving Loan Fund. Water rates were raised by 3%, the same as the Consumer Price Index, in an effort to meet state revolving fund loan mandates that state the City shall charge to produce gross revenues in same fund at least sufficient to pay operating & maintenance expense and leave a net revenue equal to at least 110% of the principal of and interest on the note due in same fiscal year. Profits from an electric fund certificate of deposit paid down \$95,000 on a water infrastructure note. One final payment in FY12 allowed closure on this note which accounted for a decrease in the water fund cash balance.

The electric fund cash balance showed an increase of \$3,535. The City has continued its strong efforts towards efficiency in operating costs and continues to push towards encouraging energy efficiency. The City received an Energy Efficiency Community Block Grant which assisted in these efforts including the installation of the first group of LED street lights. The retrofitting of City street lights with Light Emitting Diodes lights is anticipated to continue due to council action as moved on February 13, 2012 to allocate \$10,000 yearly with the intention to save energy and energy costs. The simple payback is 8 years on these LED's that have a 15 year warranty and a high savings in kWh usage. The City had a rate analysis done by William Leung and the rates were adjusted based on that analysis in February of 2012. Profits from an electric fund certificate of deposit paid down \$95,000 on a water infrastructure note.

The wastewater fund cash balance showed a decrease of \$526. A monthly fee of \$4.00 (initiated in August of 2010) per service aimed at reducing the wastewater fund negative balance continues to aid in reducing the negative balance. The loan for the revenue bond on the city lagoon and lift station built in 1992 was paid off in FY12. Council did not increase rates in FY12 because the \$4.00 sewer debt fee was reducing fund debt and the gains for not having to pay on a

loan will greatly aid in reducing the negative in this fund. The City continues to work towards a FEMA Hazard Mitigation Grant and applied for a Community Development Block Grant that was denied with CDBG stating that the City project was not prepared enough. There are \$55,944 in expenses that were all approved pre-application costs that will hopefully be recouped from the FEMA Hazard Mitigation grant if received. This grant is intended to address sanitary sewer inflow and infiltration problems. The City was informed by Iowa Homeland Security Emergency Management that FEMA will approve this grant but a date is not yet set. This fund is closely monitored by the City.

The garbage and landfill fund cash balance showed an increase of \$5,134. This was primarily due to the fees collected for a quarterly landfill assessment not yet paid out. The City withdrew from the Hamilton County Solid Waste Commission (HCSWC) June 30, 2010. Garbage and the relating landfill assessment fees were taken directly to the Fort Dodge Landfill beginning in Fiscal Year 2011. Landfill assessment may be expected to increase since the Fort Dodge Landfill may have to put in a plastic liner. In Fiscal Year 2012, City Council still worked towards the appropriation of the 4.95% of the pro-rata funds that are currently held in the HCSWC accounts.

Changes in Cash Basis Net Assets of Business Type Activities

	Year ended June 30,	
	2012	2011
Receipts:		
Program Receipts:		
Charges for services:		
Water	\$170,081	\$173,988
Electric	593,368	626,277
Garbage and Landfill	100,105	105,429
Sewer	92,649	97,326
Capital grants, contributions and restricted interest	21,256	280,761
Unrestricted interest on investments	-	5,554
Miscellaneous	80,863	72,209
Bond Proceeds	5,000	512,458
Loan proceeds	-	-
<u>Total Receipts and transfers in</u>	<u>1,063,322</u>	<u>1,874,002</u>
Disbursements and transfers out:		
Water	310,134	951,839
Electric	537,347	586,942
Garbage and Landfill	97,693	101,436
Sewer	95,500	179,038
Transfers	<u>20,724</u>	<u>26,933</u>
<u>Total disbursements</u>	<u>1,061,398</u>	<u>1,846,188</u>
Increase (decrease) in cash balance	1,924	27,814
Cash basis net assets beginning of year	<u>855,160</u>	827,346
Cash basis net assets end of year	<u>\$857,084</u>	<u>\$855,160</u>

BUDGETARY OVERTONE

The City will keep on monitoring all funds, particularly the deficit sewer fund, making sure those rates for all the proprietary funds are adequate to cover needed revenue bonds, and expenses; building capital for the future and be conservative in order to keep citizens rates as low as possible. City will continue to be prudent in general fund expenditures in efforts to best spend tax payer dollars and be cautious about tax increases. The City will continue to budget for capital projects; closely analyzing what is or is not a capital project. Closer function monitoring so the City does not go over budget will be a constant importance through a fiscal year. Due to Federal Grants that the City has, it is important to monitor and identify when a federally required Single Audit (A-133) is needed.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$450,000 in outstanding debt; which includes \$90,000 in General Obligation bonds; \$360,000 in Water Plant Project through the State Revolving Fund as revenue bonds.

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 2013 budget which includes the tax rates and fees that will be charged for various City activities. General fund fees remained the same except for swimming pool fee increase; budgets within the General fund were reviewed extremely closely and had very few increases due to the economy and the likelihood of property valuation decreases.

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 efficient ever present.

Another factor taken into account was the need to take care of the fund deficits and the necessity to continue to analyze all utility funds frequently to make sure that the rates are adequate to repair deficits, pay for expenses and to allow for the building of reserves for maintenance and future improvements. The ever present factor to take into account will be increases in transmission rates that have continued to affect electric costs and the future drought possibilities that could affect the water table and ultimately, the water utility.

The City's overall levy rate decreased from \$16.8857 to \$16.3428 from fiscal 2012 to fiscal 2013.

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/Clerk, 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, 2012

		Program Receipts		
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions, and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 95,054	86,346	40,369	-
Public works	115,026	-	70,474	-
Health and social services	5,069	-	-	-
Culture and recreation	121,400	-	-	-
Community and economic development	40,434	15,283	2,756	30,802
General government	60,457	-	-	-
Debt service	50,968	-	-	-
Total governmental activities	488,408	101,629	113,599	30,802
Business type activities:				
Water	310,134	170,081	-	21,256
Electric	537,347	593,368	-	-
Garbage and landfill	97,693	100,105	-	-
Sewer	95,500	92,649	-	-
Total business type activities	1,040,674	956,203	-	21,256
Total	\$ 1,529,082	1,057,832	113,599	52,058

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:
 - Debt service
 - Streets
 - 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
31,661	-	31,661
(44,552)	-	(44,552)
(5,069)	-	(5,069)
(121,400)	-	(121,400)
8,407	-	8,407
(60,457)	-	(60,457)
<u>(50,968)</u>	<u>-</u>	<u>(50,968)</u>
<u>(242,378)</u>	<u>-</u>	<u>(242,378)</u>
-	(118,797)	(118,797)
-	56,021	56,021
-	2,412	2,412
<u>-</u>	<u>(2,851)</u>	<u>(2,851)</u>
<u>-</u>	<u>(63,215)</u>	<u>(63,215)</u>
<u>(242,378)</u>	<u>(63,215)</u>	<u>(305,593)</u>
169,125	-	169,125
51,075	-	51,075
57,717	-	57,717
746	-	746
-	5,000	5,000
44,813	80,863	125,676
<u>20,724</u>	<u>(20,724)</u>	<u>-</u>
<u>344,200</u>	<u>65,139</u>	<u>409,339</u>
101,822	1,924	103,746
<u>480,619</u>	<u>855,160</u>	<u>1,335,779</u>
<u>\$ 582,441</u>	<u>857,084</u>	<u>1,439,525</u>
\$ 1,876	17,603	19,479
62,741	-	62,741
471,476	-	471,476
<u>46,348</u>	<u>839,481</u>	<u>885,829</u>
<u>\$ 582,441</u>	<u>857,084</u>	<u>1,439,525</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, 2012

Exhibit B

	<u>General</u>	Nonmajor Governmental <u>Funds</u>	<u>Total</u>
Receipts:			
Property tax	\$ 139,943	80,257	220,200
Other city tax	-	57,717	57,717
Licenses and permits	1,414	-	1,414
Use of money and property	690	746	1,436
Intergovernmental	44,414	108,032	152,446
Charges for service	15,283	84,932	100,215
Miscellaneous	<u>27,852</u>	<u>8,226</u>	<u>36,078</u>
Total receipts	<u>229,596</u>	<u>339,910</u>	<u>569,506</u>
Disbursements:			
Operating:			
Public safety	35,771	59,283	95,054
Public works	17,792	97,234	115,026
Health and social services	4,072	997	5,069
Culture and recreation	109,595	11,805	121,400
Community and economic development	5,497	34,937	40,434
General government	53,027	7,430	60,457
Debt service	-	<u>50,968</u>	<u>50,968</u>
Total disbursements	<u>225,754</u>	<u>262,654</u>	<u>488,408</u>
Excess (deficiency) of receipts over (under) disbursements	<u>3,842</u>	<u>77,256</u>	<u>81,098</u>
Other financing sources (uses):			
Operating transfers in	32,131	27,207	59,338
Operating transfers out	<u>(17,662)</u>	<u>(20,952)</u>	<u>(38,614)</u>
Total other financing sources (uses)	<u>14,469</u>	<u>6,255</u>	<u>20,724</u>
Net change in cash balances	18,311	83,511	101,822
Cash balances beginning of year	<u>28,037</u>	<u>452,582</u>	<u>480,619</u>
Cash balances end of year	<u>\$ 46,348</u>	<u>536,093</u>	<u>582,441</u>
Cash Basis Fund Balances			
Restricted:			
Debt service	\$ -	1,876	1,876
Streets	-	62,741	62,741
Other purposes	-	471,476	471,476
Unassigned	<u>46,348</u>	<u>-</u>	<u>46,348</u>
Total cash basis fund balances	<u>\$ 46,348</u>	<u>536,093</u>	<u>582,441</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, 2012

	Enterprise Funds			
	Water Utility	Electric Utility	Nonmajor- Funds	Total
Operating receipts:				
Charges for service	\$ 170,081	591,439	192,754	954,274
Miscellaneous	<u>15,078</u>	<u>60,738</u>	<u>5,047</u>	<u>80,863</u>
Total operating receipts	<u>185,159</u>	<u>652,177</u>	<u>197,801</u>	<u>1,035,137</u>
Operating disbursements:				
Business type activities	<u>93,509</u>	<u>537,347</u>	<u>157,683</u>	<u>788,539</u>
Total operating disbursements	<u>93,509</u>	<u>537,347</u>	<u>157,683</u>	<u>788,539</u>
Excess of operating receipts over operating disbursements	<u>91,650</u>	<u>114,830</u>	<u>40,118</u>	<u>246,598</u>
Non-operating receipts (disbursements):				
Miscellaneous	21,256	1,929	-	23,185
Bond proceeds	5,000	-	-	5,000
Capital projects	(60,049)	-	(9,120)	(69,169)
Debt service	<u>(156,576)</u>	<u>-</u>	<u>(26,390)</u>	<u>(182,966)</u>
Total non-operating receipts (disbursements)	<u>(190,369)</u>	<u>1,929</u>	<u>(35,510)</u>	<u>(223,950)</u>
Excess (deficiency) of receipts over (under) disbursements	(98,719)	116,759	4,608	22,648
Operating transfers in (out)	<u>92,500</u>	<u>(113,224)</u>	<u>-</u>	<u>(20,724)</u>
Net change in cash balances	(6,219)	3,535	4,608	1,924
Cash balances beginning of year	<u>90,480</u>	<u>843,498</u>	<u>(78,818)</u>	<u>855,160</u>
Cash balances end of year	<u>\$ 84,261</u>	<u>847,033</u>	<u>(74,210)</u>	<u>857,084</u>
Cash Basis Fund Balances				
Restricted for debt service	13,846	-	3,757	17,603
Unrestricted	<u>70,415</u>	<u>847,033</u>	<u>(77,967)</u>	<u>839,481</u>
Total cash basis fund balances	<u>\$ 84,261</u>	<u>847,033</u>	<u>(74,210)</u>	<u>857,084</u>

See notes to financial statements.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2012

(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 several 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 boards and commissions: Hamilton County Joint E911 Service Board, Iowa Agency for Municipal Wind Board, Squaw Creek Watershed Management Authority, and North Central Iowa Regional Solid Waste Agency.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2012

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.

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, 2012

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 from general and emergency levies 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 Enterprise, Electric Fund accounts for the operation and maintenance of the City's electric system.

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

C. Measurement Focus and Basis of Accounting

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

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2012

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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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. Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2012

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the health and social services function.

(2) **Cash**

The City's deposits in banks at June 30, 2012 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, 2012

(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
2013	\$ 45,000	3,713	15,000	10,800
2014	45,000	1,890	16,000	10,350
2015	-	-	16,000	9,870
2016	-	-	17,000	9,390
2017	-	-	17,000	8,880
2018-2022	-	-	94,000	36,360
2023-2027	-	-	110,000	21,330
2028-2030	-	-	75,000	4,560
Total	\$ 90,000	5,603	360,000	111,540

Year Ending June 30,	Total	
	Principal	Interest
2012	\$ 60,000	14,513
2013	61,000	12,240
2014	16,000	9,870
2015	17,000	9,390
2016	17,000	8,880
2017-2021	94,000	36,360
2022-2026	110,000	21,330
2027-2028	75,000	4,560
Total	\$ 450,000	117,143

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2012

Revenue Bonds

The City also has pledged future water customer receipts, net of specified operating disbursements, to repay \$392,000 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 \$471,540. For the current year, principal and interest paid and total customer net receipts were \$26,195 and \$101,692. The City's sewer revenue bond was paid off during the year ended June 30, 2012.

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) 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, 2012

(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 5.38% of their annual salary and the City is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by state statute. The City's contribution to IPERS for the years ended June 30, 2012, 2011, and 2010 were \$14,346, \$12,169, and \$11,611, 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 four 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 TrueNorth. 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 \$577 for single coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2012, the City contributed \$29,617 and plan members eligible for benefits contributed \$0 to the plan.

City of Stratford, Iowa

Notes to Financial Statements

June 30, 2012

(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, 2012, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ 8,000
	=====

This liability has been computed based on rates of pay in effect at June 30, 2012.

(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, 2012

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer From</u>	<u>Amount</u>
General	Special Revenue: Emergency	\$ 3,400
	Library Trust	15,507
	Enterprise: Electric	13,224
Special Revenue: 2010 Downtown Facade	Special Revenue: 2010 Housing Rehab	2,045
Capital Projects: Fire Department	General	15,162
Capital Equipment	General	2,500
	Enterprise: Water	2,500
	Electric	5,000
Water	Enterprise: Electric	<u>95,000</u>
Total		\$ 154,338 =====

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, 2012

(9) Related Party Transactions

The City had business transactions between the City and City officials totaling \$44,538 during the year ended June 30, 2012.

(10) Deficit Fund Balances

The Enterprise Fund, Sewer Utility Account had a deficit balance of \$110,639 at June 30, 2012. The City had a rate study and increased rates effective August 2010. This rate increase should eventually return this account to a positive financial position.

(11) Subsequent Events

The City has evaluated subsequent events through November 30, 2012, the date the financial statements were available to be issued. The City has hired an engineering firm for approximately \$30,000 to design future water main improvements.

(12) Contingency

The City of Stratford withdrew from the Hamilton County Solid Waste Commission during the year ended June 30, 2011. The City would still be liable for their share of the post closure costs, which as of June 30, 2010 was estimated to be approximately \$2,300.

Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>
Receipts:		
Property tax	\$ 220,200	-
Other city tax	57,717	-
Licenses and permits	1,414	-
Use of money and property	1,436	-
Intergovernmental	152,446	-
Charges for service	100,215	954,274
Miscellaneous	36,078	104,048
Total receipts	<u>569,506</u>	<u>1,058,322</u>
Disbursements:		
Public safety	95,054	-
Public works	115,026	-
Health and social services	5,069	-
Culture and recreation	121,400	-
Community and economic development	40,434	-
General government	60,457	-
Debt service	50,968	-
Capital projects	-	-
Business type activities	-	1,040,674
Total disbursements	<u>488,408</u>	<u>1,040,674</u>
Excess (deficiency) of receipts over (under) disbursements	81,098	17,648
Other financing sources, net	<u>20,724</u>	<u>(15,724)</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	101,822	1,924
Balances beginning of year	<u>480,619</u>	<u>855,160</u>
Balances end of year	<u>\$ 582,441</u>	<u>857,084</u>

See accompanying independent auditor's report.

<u>Net</u>	<u>Budgeted Amounts</u>		<u>Final to Net Variance</u>
	<u>Original</u>	<u>Final</u>	
220,200	218,273	218,273	1,927
57,717	56,492	56,492	1,225
1,414	1,315	1,315	99
1,436	9,400	9,400	(7,964)
152,446	813,404	816,204	(663,758)
1,054,489	1,144,950	1,144,950	(90,461)
140,126	119,692	148,242	(8,116)
<u>1,627,828</u>	<u>2,363,526</u>	<u>2,394,876</u>	<u>(767,048)</u>
95,054	112,007	124,791	29,737
115,026	108,100	129,100	14,074
5,069	4,955	4,955	(114)
121,400	101,889	167,888	46,488
40,434	6,100	741,594	701,160
60,457	68,840	77,040	16,583
50,968	50,968	50,968	-
-	731,294	20,135	20,135
1,040,674	1,045,758	1,185,158	144,484
<u>1,529,082</u>	<u>2,229,911</u>	<u>2,501,629</u>	<u>972,547</u>
98,746	133,615	(106,753)	205,499
<u>5,000</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
103,746	133,615	(106,753)	210,499
-	-	-	-
<u>1,335,779</u>	<u>1,335,779</u>	<u>1,335,779</u>	<u>-</u>
<u>1,439,525</u>	<u>1,469,394</u>	<u>1,229,026</u>	<u>210,499</u>

City of Stratford, Iowa

Notes to Other Information – Budgetary Reporting

June 30, 2012

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, 2012, one budget amendment increased budgeted disbursements by \$271,718 and budgeted receipts by \$31,350. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements exceeded the amounts budgeted in the health and social services function.

Supplementary Information

City of Stratford, Iowa

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

As of and for the year ended June 30, 2012

	Special					
	Road Use	Trust & Agency	Emergency	LOST Streets	LOST Pool	Library Trust
Receipts:						
Property tax	\$ -	25,697	3,485	-	-	-
Other city tax	-	-	-	28,859	28,858	-
Use of money and property	-	-	-	-	-	-
Intergovernmental	70,474	-	-	-	-	4,000
Charges for service	-	-	-	-	-	-
Miscellaneous	-	-	-	-	-	5,127
Total receipts	<u>70,474</u>	<u>25,697</u>	<u>3,485</u>	<u>28,859</u>	<u>28,858</u>	<u>9,127</u>
Disbursements:						
Operating:						
Public safety	-	3,069	-	-	-	-
Public works	95,093	2,141	-	-	-	-
Health and social services	-	997	-	-	-	-
Culture and recreation	-	6,445	-	-	5,360	-
Community and economic developmen	-	-	-	-	-	-
General government	-	7,430	-	-	-	-
Debt service	-	-	-	-	-	-
Total disbursements	<u>95,093</u>	<u>20,082</u>	<u>-</u>	<u>-</u>	<u>5,360</u>	<u>-</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(24,619)</u>	<u>5,615</u>	<u>3,485</u>	<u>28,859</u>	<u>23,498</u>	<u>9,127</u>
Other financing sources (uses):						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	-	-	(3,400)	-	-	(15,507)
Total other financing sources (uses)	<u>-</u>	<u>-</u>	<u>(3,400)</u>	<u>-</u>	<u>-</u>	<u>(15,507)</u>
Net change in cash balances	(24,619)	5,615	85	28,859	23,498	(6,380)
Cash balances beginning of year	87,360	13,910	-	27,059	78,116	29,990
Cash balances end of year	<u>\$ 62,741</u>	<u>19,525</u>	<u>85</u>	<u>55,918</u>	<u>101,614</u>	<u>23,610</u>
Cash Basis Fund Balances						
Restricted:						
Debt service	\$ -	-	-	-	-	-
Streets	62,741	-	-	-	-	-
Other purposes	-	19,525	85	55,918	101,614	23,610
Total cash basis fund balances	<u>\$ 62,741</u>	<u>19,525</u>	<u>85</u>	<u>55,918</u>	<u>101,614</u>	<u>23,610</u>

See accompanying independent auditor's report

Revenue				Capital Projects			
Community Disaster	Rescue	2010 Housing Rehabilitation	2011 Downtown Facade	Debt Service	Fire Department	Capital Equipment	Total
-	-	-	-	51,075	-	-	80,257
-	-	-	-	-	-	-	57,717
-	746	-	-	-	-	-	746
2,756	-	2,045	28,757	-	-	-	108,032
-	84,932	-	-	-	-	-	84,932
-	3,099	-	-	-	-	-	8,226
<u>2,756</u>	<u>88,777</u>	<u>2,045</u>	<u>28,757</u>	<u>51,075</u>	-	-	<u>339,910</u>
-	56,214	-	-	-	-	-	59,283
-	-	-	-	-	-	-	97,234
-	-	-	-	-	-	-	997
-	-	-	-	-	-	-	11,805
-	-	1,177	33,760	-	-	-	34,937
-	-	-	-	-	-	-	7,430
-	-	-	-	50,968	-	-	50,968
-	<u>56,214</u>	<u>1,177</u>	<u>33,760</u>	<u>50,968</u>	-	-	<u>262,654</u>
<u>2,756</u>	<u>32,563</u>	<u>868</u>	<u>(5,003)</u>	<u>107</u>	-	-	<u>77,256</u>
-	-	-	2,045	-	15,162	10,000	27,207
-	-	(2,045)	-	-	-	-	(20,952)
-	-	<u>(2,045)</u>	<u>2,045</u>	-	<u>15,162</u>	<u>10,000</u>	<u>6,255</u>
2,756	32,563	(1,177)	(2,958)	107	15,162	10,000	83,511
-	129,361	2,625	2,958	1,769	46,482	32,952	452,582
<u>2,756</u>	<u>161,924</u>	<u>1,448</u>	<u>-</u>	<u>1,876</u>	<u>61,644</u>	<u>42,952</u>	<u>536,093</u>
-	-	-	-	1,876	-	-	1,876
-	-	-	-	-	-	-	62,741
2,756	161,924	1,448	-	-	61,644	42,952	471,476
<u>2,756</u>	<u>161,924</u>	<u>1,448</u>	<u>-</u>	<u>1,876</u>	<u>61,644</u>	<u>42,952</u>	<u>536,093</u>

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

As of and for the year ended June 30, 2012

	<u>Sewer</u>	<u>Garbage & Landfill</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 92,649	100,105	192,754
Miscellaneous	<u>2,325</u>	<u>2,722</u>	<u>5,047</u>
Total operating receipts	<u>94,974</u>	<u>102,827</u>	<u>197,801</u>
Operating disbursements:			
Business type activities	<u>59,990</u>	<u>97,693</u>	<u>157,683</u>
Total operating disbursements	<u>59,990</u>	<u>97,693</u>	<u>157,683</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>34,984</u>	<u>5,134</u>	<u>40,118</u>
Non-operating receipts (disbursements):			
Capital projects	(9,120)	-	(9,120)
Debt service	<u>(26,390)</u>	<u>-</u>	<u>(26,390)</u>
Total non-operating receipts (disbursements)	<u>(35,510)</u>	<u>-</u>	<u>(35,510)</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(526)</u>	<u>5,134</u>	<u>4,608</u>
Net change in cash balances	(526)	5,134	4,608
Cash balances beginning of year	<u>(110,113)</u>	<u>31,295</u>	<u>(78,818)</u>
Cash balances end of year	<u>\$ (110,639)</u>	<u>36,429</u>	<u>(74,210)</u>
Cash Basis Fund Balances			
Restricted for debt service	\$ 3,757	-	3,757
Unrestricted	<u>(114,396)</u>	<u>36,429</u>	<u>(77,967)</u>
Total cash basis fund balances	<u>\$ (110,639)</u>	<u>36,429</u>	<u>(74,210)</u>

See accompanying independent auditor's report.

City of Stratford, Iowa
 Schedule of Indebtedness
 Year ended June 30, 2012

<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
Revenue bonds: Water	Feb 3, 2010	3.00 %	\$ 392,000

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>
<u>135,000</u>	<u>-</u>	<u>45,000</u>	<u>90,000</u>	<u>5,968</u>	<u>-</u>
<u>370,000</u>	<u>5,000</u>	<u>15,000</u>	<u>360,000</u>	<u>11,195</u>	<u>-</u>

Bond and Note Maturities

June 30, 2012

Year Ending June 30,	General Obligation Notes		Revenue Bonds	
	Swimming Pool		Water	
	Issued May 1, 2004		Issued February 3, 2010	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2013	4.05 %	\$ 45,000	3.00 %	\$ 15,000
2014	4.20	45,000	3.00	16,000
2015	-	-	3.00	16,000
2016	-	-	3.00	17,000
2017	-	-	3.00	17,000
2018	-	-	3.00	18,000
2019	-	-	3.00	18,000
2020	-	-	3.00	19,000
2021	-	-	3.00	19,000
2022	-	-	3.00	20,000
2023	-	-	3.00	21,000
2024	-	-	3.00	21,000
2025	-	-	3.00	22,000
2026	-	-	3.00	23,000
2027	-	-	3.00	23,000
2028	-	-	3.00	24,000
2029	-	-	3.00	25,000
2030	-	-	3.00	26,000
Total		<u>\$ 90,000</u>		<u>\$ 360,000</u>

See accompanying independent auditor's report.

City of Stratford, Iowa

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

For the Last Eight Years

	<u>2012</u>	<u>2011</u>	<u>2010</u>	<u>2009</u>
Receipts:				
Property tax	\$ 220,200	213,856	219,740	222,279
Tax increment financing	-	-	-	-
Other city tax	57,717	54,118	54,434	57,354
Licenses and permits	1,414	1,151	1,298	852
Use of money and property	1,436	2,180	2,681	3,233
Intergovernmental	152,446	130,752	113,623	96,005
Charges for service	100,215	89,530	75,129	79,626
Miscellaneous	<u>36,078</u>	<u>31,653</u>	<u>55,626</u>	<u>53,596</u>
Total	<u>\$ 569,506</u>	<u>523,240</u>	<u>522,531</u>	<u>512,945</u>
Disbursements:				
Operating:				
Public safety	\$ 95,054	104,616	98,896	92,343
Public works	115,026	158,328	126,917	39,470
Health and social services	5,069	3,640	5,647	3,243
Culture and recreation	121,400	159,818	130,831	146,713
Community and economic development	40,434	18,945	8,525	14,184
General government	60,457	51,725	53,667	62,818
Debt service	50,968	46,948	48,327	49,608
Capital projects	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 488,408</u>	<u>544,020</u>	<u>472,810</u>	<u>408,379</u>

See accompanying independent auditor's report.

<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
191,707	195,734	169,558	180,707
19,949	30,369	56,344	30,156
53,900	60,808	50,711	49,108
1,356	1,137	980	1,135
6,741	14,477	37,814	19,149
93,699	107,879	86,766	99,355
77,112	216,285	15,144	13,839
<u>38,087</u>	<u>53,996</u>	<u>17,729</u>	<u>6,653</u>
<u><u>482,551</u></u>	<u><u>680,685</u></u>	<u><u>435,046</u></u>	<u><u>400,102</u></u>
79,166	201,417	80,342	76,195
75,672	26,480	77,875	69,353
2,702	6,793	1,110	3,324
138,220	135,208	102,864	71,218
4,529	750	52,469	1,175
81,081	71,292	109,257	93,911
68,698	166,923	143,357	77,247
-	-	<u>73,233</u>	<u>435,196</u>
<u><u>450,068</u></u>	<u><u>608,863</u></u>	<u><u>640,507</u></u>	<u><u>827,619</u></u>

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

714 14th Avenue North
Fort Dodge, IA 50501-7098
Phone 515.955.4805 • Fax 515.955.4673

Lowell W. Cornwell, C.P.A.
lwcornwell@frontiernet.net

Christine R. Frideres, C.P.A.
crfrideres@frontiernet.net

Jerilyn J. Maher, C.P.A.
jjmaher@frontiernet.net

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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated November 30, 2012. 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

The management of the City of Stratford is responsible for establishing and maintaining effective 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 an 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-12 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-12 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 which 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, 2012 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, and 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.

Cornwell, Frideres, Maher & Associates, P.L.C.

Certified Public Accountants

November 30, 2012

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2012

Part I: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

INTERNAL CONTROL DEFICIENCIES:

I-A-12 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-12 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, 2012

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 Required Statutory Reporting:

II-A-12 Certified Budget – Disbursements for the year ended June 30, 2012 exceeded the amended budget amounts in the health and social services function. Chapter 384.2 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

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

Conclusion – Response accepted.

II-B-12 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-12 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

City of Stratford, Iowa

Schedule of Findings

Year ended June 30, 2012

- II-D-12 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 \$42,678 for the year ended June 30, 2012. 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.

Brian Wilde, council member, owns Wilde Repair. The City of Stratford spent \$620 with Wilde Repair for maintenance during the fiscal year ended June 30, 2012. This does not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

Aaron Bradley, council member, performed contract services for fire and rescue. The City of Stratford paid Aaron \$1,240 for these services during the fiscal year ended June 30, 2012. This does not appear to represent a conflict of interest since total transactions were less than \$2,500 during the fiscal year.

- II-E-12 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-12 Council Minutes – Out of twenty-two claims reviewed, it was noted that two of them were not published in the paper as required by the Code of Iowa.

Recommendation – City officials should review it's procedures to insure that all claims are published in the paper.

Response – This was an oversight this year, as the wrong bill listing was sent to the paper. As of the audit report date, the correct claims have been published. We will review our procedures so this does not happen in the future.

Conclusion – Response accepted.

- II-G-12 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, 2012

II-H-12 Revenue Bonds – No instances of non-compliance with the revenue bond and no resolutions were noted.

II-I-12 Deficit Balance – The Enterprise fund, Sewer Utility account had a deficit balance of \$110,639 at June 30, 2012.

Recommendation – The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response – See notes to financial statements #10 for a description of how City officials expect to eliminate this deficit.

Conclusion – Response accepted.