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CRESTON, IOWA 50801

NEWS RELEASE

FOR IMMEDIATE RELEASE

Draper, Snodgrass, Mikkelsen & Co., P.C. today released an audit report on the City of Stuart, Iowa.

The City's receipts totaled $1,810,688 for the year ended June 30, 2003. The receipts included $538,117 in property tax, $142,586 tax increment financing collections, $66,292 in local hotel\motel tax, $209,827 from the State, $380,144 from the federal government and $38,415 in interest on investments. The City also received note proceeds of $66,384 that are reported as other financing sources.

Disbursements for the year totaled $2,049,089 and included $675,332 for business type functions (sewer), $337,161 for public safety, and $310,895 for general government.

The report contains recommendations to the City Council and other City officials.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

RECEIVED
FEB 23

CITY OF STUART, IOWA

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTAL INFORMATION
ADDITIONAL REQUIRED AUDITORS' REPORTS

Year Ended June 30, 2003

CITY OF STUART
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CITY OF STUART

OFFICIALS

NAME	TITLE	TERM EXPIRES
Gene Skellenger	Mayor	January 1, 2006
Mamie Wells	Council Member	January 1, 2006
Tim Wolfe	Council Member	January 1, 2006
Mick Askren	Council Member	January 1, 2004
Mike Basart	Council Member	January 1, 2004
Winnifred Gaskill	Council Member	January 1, 2006
Ashraf Ashour	City Administrator	
Pat Cooper	Deputy Clerk	
Bill Bump	City Attorney	

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CRESTON, IOWA 50801

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
City of Stuart
Stuart, Iowa

We have audited the accompanying financial statements, listed as exhibits in the table of contents of this report, of the City of Stuart, Iowa, as of and for the year ended June 30, 2003. These financial statements are the responsibility of City officials. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and 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 opinion.

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.

As permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. As a result, we were unable to satisfy ourselves as to the distribution by fund of the total fund balances at July 1, 2002.

As discussed in Note 12 to the financial statements, the City of Stuart, Iowa, intends to implement Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statements No. 38, Certain Financial Statement Note Disclosures, for the fiscal year ending June 30, 2004. The effects of these statements are expected to significantly impact the presentation of the City's financial statements and related notes in the year of implementation. The revised requirements will include the use of the economic resources measurement focus and full accrual accounting, as well as an analytical overview of the City's financial activities in the Management's Discussion and Analysis introduction to the basic financial statements. However, the City has elected to continue using the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

To the Honorable Mayor and
Members of the City Council
City of Stuart

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2002, as discussed in a preceding paragraph, the aforementioned financial statements present fairly, in all material respects, the results of the cash transactions of the funds of the City of Stuart as of and for the year ended June 30, 2003, and its indebtedness at June 30, 2003, on the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2004, on our consideration of the City of Stuart's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the result of our audit.

Our audit was made for the purpose of forming an opinion on the aforementioned financial statements taken as a whole. The supplemental information included in Schedules 1 through 9, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of State, Local Governments and Non-Profit Organizations, is presented for purposes of additional analysis and is not a required part of the basic financial standards. Such information has been subjected to the auditing procedures applied in our audit of the aforementioned financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

Dragon, Smallgrass, Mikkelsen + Co, P.C.

January 9, 2004

CITY OF STUART, IOWA
COMBINED STATEMENT OF CASH TRANSACTIONS
ALL FUND TYPES AND THE DISCRETELY PRESENTED COMPONENT UNIT
Year Ended June 30, 2003

Exhibit A

	Governmental		
	General	Special Revenue	Debt Service
RECEIPTS:			
Property tax	$ 296,495	$ 61,362	$ 180,260
Tax increment financing collections	-	142,586	-
Other city tax	66,292	-	-
Licenses and permits	8,773	-	-
Uses of money and property	7,182	7,085	1,326
Intergovernmental	245,808	139,380	-
Charges for services	161,122	-	-
Miscellaneous	81,405	-	-
Total receipts	$ 867,077	$ 350,413	$ 181,586
DISBURSEMENTS:			
Public safety	$ 297,879	$ 37,686	$ -
Public works	142,709	153,764	-
Culture and recreation	107,739	5,443	-
Community and economic development	122,131	-	-
General government	288,179	22,716	-
Debt service	-	-	190,365
Capital projects	-	-	-
Sewer	-	-	-
Water	-	-	-
Electric	-	-	-
Total disbursements	$ 958,637	$ 219,609	$ 190,365
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (91,560)	$ 130,804	$ (8,779)
OTHER FINANCING SOURCES (USES):			
Loan proceeds	$ 43,534	$ -	$ -
Operating transfers in (out)	121,948	(149,678)	27,730
Total other financing sources (uses)	$ 165,482	$(149,678)	$ 27,730
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (OVER) (UNDER) DISBURSEMENTS AND OTHER FINANCING SOURCES USES	$ 73,922	$ (18,874)	$ 18,951
BALANCE, Beginning of year	196,767	453,025	117,278
BALANCE, End of year	$ 270,689	$ 434,151	$ 136,229

The accompanying notes are an integral part of these financial statements.

Governmental Capital Projects	Proprietary Enterprise	Fiduciary Fund Type Trust	Total (Memorandum Only)	Component Unit - Municipal Utilities	Total Reporting Entity (Memorandum Only)
$ -	$ -	$ -	$ 538,117	$ -	$ 538,117
-	-	-	142,586	-	142,586
-	-	-	66,292	-	66,292
-	-	-	8,773	-	8,773
-	19,237	5,017	39,847	70,541	110,388
-	204,783	-	589,971	-	589,971
-	167,009	-	328,131	1,608,816	1,936,947
499	1,747	13,320	96,971	129,070	226,041
$ 499	$ 392,776	$ 18,337	$ 1,810,688	$1,808,427	$ 3,619,115
$ -	$ -	$ 1,596	$ 337,161	$ -	$ 337,161
-	-	-	296,473	-	296,473
-	-	-	113,182	-	113,182
-	-	-	122,131	-	122,131
-	-	-	310,895	-	310,895
-	-	-	190,365	-	190,365
3,550	-	-	3,550	-	3,550
-	675,332	-	675,332	-	675,332
-	-	-	-	458,549	458,549
-	-	-	-	1,523,977	1,523,977
$ 3,550	$ 675,332	$ 1,596	$ 2,049,089	$1,982,526	$ 4,031,615
$ (3,051)	$ (282,556)	$ 16,741	$ (238,401)	$ (174,099)	$ (412,500)
$ -	$ 11,425	$ -	$ 54,959	$ 11,425	$ 66,384
-	-	-	-	-	-
$ -	$ 11,425	$ -	$ 54,959	$ 11,425	$ 66,384
$ (3,051)	$ (271,131)	$ 16,741	$ (183,442)	$ (162,674)	$ (346,116)
32,435	609,650	114,712	1,523,867	2,129,465	3,653,332
$ 29,384	$ 338,519	$ 131,453	$ 1,340,425	$1,966,791	$ 3,307,216

CITY OF STUART, IOWA
COMPARISON OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - ACTUAL TO BUDGET - PRIMARY GOVERNMENT
Year Ended June 30, 2003

Exhibit B

	Actual	Less Funds not Required to be Budgeted
RECEIPTS:		
Property tax	$ 538,117	$ -
Tax increment financing collections	142,586	-
Other city tax	66,292	-
Licenses and permits	8,773	-
Uses of money and property	39,847	5,017
Intergovernmental	589,971	-
Charges for services	328,131	-
Miscellaneous	96,971	13,320
Total receipts	$1,810,688	$ 18,337
DISBURSEMENTS:		
Public safety	$ 337,161	$ 1,596
Public works	296,473	-
Culture and recreation	113,182	-
Community and economic development	122,131	-
General government	310,895	-
Debt service	190,365	-
Capital projects	3 550	-
Sewer	675,332	-
Total disbursements	$2,049,089	$ 1,596
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (238,401)	$ 16,741
OTHER FINANCING SOURCES, NET	54,959	-
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES (OVER) (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	$ (183,442)	$ 16,741
BALANCE, Beginning of year	1,523,867	114,712
BALANCE, End of year	$1,340,425	$ 131,453

The accompanying notes are an integral part of these financial statements.

Net	Amended Budget	Variance Favorable (Unfavorable)
$ 538,117	$ 487,652	$ 50,465
142,586	102,407	40,179
66,292	4,279	62,013
8,773	6,000	2,773
34,830	15,500	19,330
589,971	374,458	215,513
328,131	819,153	(491,022)
83,651	10,000	73,651
$1,792,351	$1,819,449	$ (27,098)
$ 335,565	$ 366,257	$ 30,692
296,473	327,273	30,800
113,182	161,462	48,280
122,131	122,407	276
310,895	315,929	5,034
190,365	166,592	(23,773)
3,550	10,000	6,450
675,332	929,757	254,425
$2,047,493	$2,399,677	$ 352,184
$ (255,142)	$ (580,228)	
54,959	-	
$ (200,183)	$ (580,228)	
1,409,155	1,353,139	
$1,208,972	$ 772,911	

CITY OF STUART, IOWA
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2003

Exhibit C

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
General obligation bonds:			
Street improvements	Aug 1, 1994	4.70-5.80%	$ 450,000
Total			
General obligation capital loan notes:			
Street improvements	Feb. 8, 1999	4.10-4.60%	375,000
Street improvements	Dec 1, 2001	3.50-5.00%	215,000
Special assessment notes:			
Street improvements	Feb 8, 1999	4.50-5.10%	75,000
Revenue notes:			
Sewer	Aug. 1, 1994	6.05-6.25%	150,000
Sewer	March 1, 1996	4.40-5.20%	310,000
Total			
Other debt:			
Equipment note	April 28, 2000	6.00%	21,923
Equipment note	June 8, 2001	5.50%	25,720
Equipment note	May 2, 2002	4.25%	45,000
Equipment note/lease purchase	Aug 1, 2002	0.00%	11,631
Equipment note	Aug 15, 2002	4.50%	11,425
Equipment note	Jan 13, 2003	4.50%	31,921
Total			

The Notes to Financial Statements are an integral part of this statement.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 205,000	$ -	$ 65,000	$ 140,000	$ 11,690	$ -
$ 280,000	$ -	$ 35,000	$ 245,000	$ 12,368	$ -
215,000	-	20,000	195,000	9,413	-
$ 495,000	$ -	$ 55,000	$ 440,000	$ 21,781	$ -
$ 60,000	$ -	$ 5,000	$ 55,000	$ 2,965	$ -
$ 150,000	$ -	$ -	$ 150,000	$ 9,235	$ -
120,000	-	40,000	80,000	6,080	-
$ 270,000	$ -	$ 40,000	$ 230,000	$ 15,315	$ -
$ 6,869	$ -	$ 6,869	$ -	$ 412	$ -
17,599	-	8,668	8,931	869	-
45,000	-	9,000	36,000	1,913	-
-	11,613	-	11,613	-	-
-	11,425	3,800	7,625	196	-
-	31,921	-	31,921	-	-
$ 69,468	$ 54,959	$ 28,337	$ 96,090	$ 3,390	$ -

Note 1. Summary of Significant Accounting Policies

The City of Stuart, Iowa is a political subdivision of the State of Iowa located in Adair and Guthrie Counties. It was first incorporated in 1876 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, culture, recreation, public improvements and general administrative services.

Reporting Entity

For financial reporting purposes, City of Stuart 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.

These financial statements present the City of Stuart (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City. Certain disclosures about the discretely presented component unit are not included because the component unit has been audited separately and a report has been issued under separate cover. The audited financial statements are available at the City Clerk's office.

Discretely Presented Component Unit

The Stuart Municipal Utilities is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Utility is governed by a three-member board appointed by the City Council and Utility's operating budget is subject to the approval of the City Council.

Note 1. Summary of Significant Accounting Policies (continued)

Fund accounting

The accounts of the City are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its receipts, disbursements and fund balances. The various funds are classified as follows in the financial statements:

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

Special Revenue Funds - The Special Revenue Funds are utilized to account for receipts derived from specific sources which are usually required by law or regulation to be accounted for in separate funds.

Debt Service Fund - The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general obligation and long-term debt and special assessment long-term debt.

Capital Projects Fund - The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

Enterprise Fund - The Enterprise Fund is utilized to finance and account for the acquisition, operations and maintenance of governmental facilities and services that are supported by user charges.

Trust Funds - The Trust Funds are utilized to account for monies and properties received and held by the City in a trustee capacity as an agent for individuals, private organizations, other governmental units and/or other funds. These include expendable trust funds and nonexpendable trust funds.

Note 1. Summary of Significant Accounting Policies (continued)

Basis of accounting

The City of Stuart 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 the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Budgets and Budgetary Accounting

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 for, internal service, non-expendable trust, pension trust and agency funds. The Stuart Municipal Utilities' budget is submitted with the City of Stuart's budget. 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 expenditures, known as programs, not by fund. These 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.

Total Columns

The total columns on the combined statements of cash transactions are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns does not present financial position or results of operations in conformity with generally accepted accounting principles. Neither is such data comparable to a consolidation. Interfund eliminations have not been made in the aggregation of this data.

Note 2. Deposits and Investments

The City's deposits at June 30, 2003, were entirely covered by Federal depository insurance, collateralized with securities or letters of credit held by the City or the City's agent in the City's name or by a multiple financial institution collateral pool 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 and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; and certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City's investments are normally categorized to give an indication of the level of risk assumed by the City at year end. However, at June 30, 2003, the City had no investments subject to risk categorization.

Note 3. Bonds Payable and Other Debt

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

	Principal			
Year Ending June 30,	General Obligation Bonds	Capital Loan Notes	Special Assessment Notes	Revenue Notes
2004	$ 70,000	$ 55,000	$ 5,000	$ 40,000
2005	70,000	60,000	10,000	40,000
2006	—	60,000	10,000	45,000
2007	—	60,000	10,000	50,000
2008	—	65,000	10,000	55,000
2009	—	65,000	10,000	—
2010	—	25,000	—	—
2011	—	25,000	—	—
2012	—	25,000	—	—
	$ 140,000	$ 440,000	$ 55,000	$ 230,000

Note 3. Bonds Payable and Other Debt (continued)

Year Ending June 30,	Principal Other Debt	Total
2004	$ 34,258	$ 204,258
2005	25,812	205,812
2006	22,378	137,378
2007	11,322	131,322
2008	2,322	132,322
2009	—	75,000
2010	—	25,000
2011	—	25,000
2012	—	25,000
	$ 96,090	$ 961,090

Year Ending June 30,	Interest General Obligation Bonds	Capital Loan Notes	Special Assessment Notes	Revenue Notes
2004	$ 8,050	$ 19,593	$ 2,490	$ 13,315
2005	4,060	17,338	2,005	11,295
2006	—	14,798	1,515	9,235
2007	—	12,208	1,015	6,513
2008	—	9,568	510	3,438
2009	—	6,653	—	—
2010	—	3,663	—	—
2011	—	2,475	—	—
2012	—	1,250	—	—
	$ 12,110	$ 87,546	$ 7,535	$ 43,796

Year Ending June 30,	Interest Other Debt	Total
2004	$ 3,804	$ 47,252
2005	2,298	36,996
2006	1,262	26,810
2007	383	20,119
2008	—	13,516
2009	—	6,653
2010	—	3,663
2011	—	2,475
2012	—	1,250
	$ 7,747	$158,734

Note 3. Bonds Payable and Other Debt (continued)

The Code of Iowa requires that principal and interest on general obligation bonds be paid from the Debt Service Fund.

The resolutions providing for the issuance of the general obligation bonds and notes include the following provisions:

(a) All taxes collected under levy shall be converted into a special fund in the Debt Service Fund.

(b) Fund monies are to be used for payment of principal and interest of the bonds only.

(c) All proceeds are to be invested in either direct obligations of the U.S. Government or deposited in banks which are members of the FDIC in FDIC insured accounts.

(d) No use of bond or note proceeds is allowed which will cause them to be classified as arbitrage bonds or notes.

(e) Project has not been and is not expected to be sold or disposed of prior to bond or note maturity.

(f) Tax levies of adequate amount are ordered for bond and note repayments.

Other Debt

On April 28, 2000, the City entered into a note agreement with a financial institution for the purchase of equipment for $21,923 at 6% interest. Interest and principal payments are due April 28 beginning April 28, 2001. The balance at June 30, 2001, is $14,615.

On June 8, 2001, the City entered into a note agreement with a financial institution for the purchase of equipment for $25,720 at 5.5% interest. Interest and principal payments are due June 8 beginning June 8, 2002.

On May 2, 2002, the City entered into a note agreement with a financial institution for the purchase of equipment for $45,000 at 4.25% interest. Interest and principal payments are due May 2 beginning May 2, 2003.

Note 3. Bonds Payable and Other Debt (continued)

On August 1, 2002, the City entered into a note agreement with a financial institution for the lease/purchase of equipment for $11,613 at 0% interest. Interest and principal payments are due August 1 beginning August 1, 2003.

On August 15, 2002, the City entered into a note agreement with a financial institution for the purchase of equipment for $11,425 at 4.5% interest. Interest and principal payments are due January 1 beginning January 1, 2003.

On January 13, 2003, the City entered into a note agreement with a financial institution for the purchase of equipment for $31,921 at 4.5% interest. Interest and principal payments are due January 13 beginning January 13, 2004.

Note 4. Pension and Retirement Benefits

IPERS

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 6.04% and 9.07%, respectively. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2003 was $18,935, equal to the required contribution for the year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. They also accumulate a limited amount of sick leave hours which are available for subsequent use only. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2003, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	$ 7,494

This liability has been computed based on rates of pay as of June 30, 2003.

Note 6. Risk Management

The City of Stuart 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. Settled claims from these risks did not exceed commercial insurance coverage during the year ended June 30, 2003.

Note 7. Commitments

Garbage Collection

The City of Stuart has renewed its contract for garbage collection for the fiscal year ending June 30, 2001, for $21,600. This contract is for a period of three years.

Note 8. Jointly Governed Organizations

The City also participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there are no ongoing financial interest or responsibility by the participating governments.

Note 9. Related Party Transactions

The City has title to all the land and buildings used by the Stuart Municipal Utilities. The Mayor appoints and the City Council confirms the appointments to the Utility Board of Trustees.

Note 10. Budget Overexpenditure

Per the Code of Iowa, disbursements may not legally exceed budgeted appropriations at the program level. During the year ended June 30, 2003, disbursements in the debt service function exceeded the amounts budgeted.

Note 11. Subsequent Events

In August 2003, the City approved the purchase of a new pickup for the street department at a cost of $21,859.

Note 12. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; and Statement No. 38, Certain Financial Statement Note Disclosures. These statements will be implemented for the fiscal year ending June 30, 2004. The effects are expected to significantly impact the presentation of governmental financial statements in the year of implementation. The revised requirements include using the economic resources measurement focus and full accrual accounting. Also, the revised minimum reporting requirements include Management's Discussion and Analysis to introduce the basic financial statements and to provide an analytical overview of the City' financial activities. However, the City has elected to continue using the cash receipts and disbursements basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

SUPPLEMENTAL INFORMATION

CITY OF STUART, IOWA
SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2003

	Schedule 1
RECEIPTS:	
Property tax	$ 296,495
Other city tax:	
Hotel/motel tax	$ 66,292
Licenses and permits	$ 8,773
Uses of money and property:	
Interest on investments	$ 5,750
Sale of assets	327
Rent	1,105
	$ 7,182
Intergovernmental:	
State allocation	$ 25,987
Bank franchise tax	13,763
State grants	30,697
Federal grants	175,361
	$ 245,808
Charges for services:	
Garbage collection	$ 70,585
Ambulance service	65,843
Cemetery charges	3,800
Recreation	20,589
Animal control	305
	$ 161,122
Miscellaneous:	
Donations	$ 4,070
Fines and fees	5,150
Refunds and reimbursements	66,045
Cemetery lots	1,800
Miscellaneous	4,340
	$ 81,405
TOTAL RECEIPTS	$ 867,077

See accompanying Independent Auditors' Report

CITY OF STUART, IOWA
SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2003

Schedule 1
(continued)

DISBURSEMENTS:	
Public safety:	
Police:	
Personal services	$ 107,142
Service and commodities	33,390
Capital outlay	39,902
	$ 180,434
Fire:	
Personal services	$ 3,737
Service and commodities	12,632
Capital outlay	26,244
	$ 42,613
Ambulance:	
Personal services	$ 33,502
Service and commodities	3,996
Capital outlay	-
	$ 73,498
Animal control:	
Service and commodities	$ 1,334
	$ 297,879
Public works:	
Roads:	
Personal services	$ 50,229
Service and commodities	17,326
Capital outlay	7,592
	$ 75,147
Garbage collection:	
Service and commodities	$ 67,562
	$ 142,709
Culture and recreation:	
Library:	
Personal services	$ 23,373
Service and commodities	2,542
Capital outlay	4,319
	$ 30,234

See accompanying Independent Auditors' Report.

CITY OF STUART, IOWA
SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2003

Schedule 1
(continued)

DISBURSEMENTS:	
Parks:	
Personal services	$ 917
Service and commodities	3,024
Capital outlay	714
	$ 4,655
Swimming pool:	
Personal services	$ 33,763
Service and commodities	17,935
Capital outlay	9,969
	$ 61,667
Cemetery:	
Service and commodities	$ 10,106
Capital outlay	1,077
	$ 11,183
	$ 107,739
Community and economic:	
Debt service:	
Contractual services	$ 122,131
General government:	
City Hall:	
Personal services	$ 64,783
Service and commodities	90,081
Capital outlay	77,292
	$ 232,156
Legal and professional services:	
Services and commodities	$ 18,267
Tort liability:	
Services and commodities	$ 37,756
	$ 288,179
TOTAL DISBURSEMENTS	$ 958,837
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (91,560)

See accompanying Independent Auditors' Report.

CITY OF STUART, IOWA
SCHEDULE OF CASH TRANSACTIONS
GENERAL FUND
Year Ended June 30, 2003

	Schedule 1 (continued)
Other financing sources (uses):	
Loan proceeds	$ 43,534
Operating transfers in (out):	
Debt service	(18,194)
Special revenues:	
Emergency	18,011
Economic development	122,131
Total other financing sources (uses)	$ 165,482
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	$ 73,922
BALANCE, Beginning of year	196,767
BALANCE, End of year	$ 270,689

See accompanying Independent Auditors' Report.

CITY OF STUART, IOWA
COMBINING SCHEDULE OF CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
Year Ended June 30, 2000

Schedule 2

	Road Use Tax	Employee Benefits	Emergency
RECEIPTS:			
Property taxes	$ -	$ 53,486	$ 7,876
Tax increment financing collections	$ -	$ -	$ -
Uses of money and property:			
Interest on investments	$ 2,115	$ 840	$ 266
Intergovernmental:			
Road use allocation	$ 139,380	$ -	$ -
TOTAL RECEIPTS	$ 141,495	$ 54,326	$ 8,142
DISBURSEMENTS:			
Public safety:			
Police:			
Personal Services	$ -	$ 37,686	$ -
Public works:			
Roads:			
Personal services	$ 826	$ 22,385	$ -
Services and commodities	130,553	-	-
Capital outlay	-	-	-
	$ 131,379	$ 22,385	$ -
Culture and recreation:			
Library:			
Personal Services	$ -	$ 2,930	$ -
Swimming pool:			
Personal Services	-	2,513	-
	$ -	$ 5,443	$ -
General government:			
City Hall:			
Personal services	$ -	$ 22,716	$ -
Services and commodities	-	-	-
	$ -	$ 22,716	$ -
TOTAL DISBURSEMENTS	$ 131,379	$ 88,230	$ -

See accompanying independent auditor's report.

Urban Renewal Tax Increment	Total
$ -	$ 61,362
$ 142,586	$ 142,586
$ 3,864	$ 7,085
$ -	$ 139,380
$ 146,450	$ 350,413
$ -	$ 37,686
$ -	$ 23,211
-	130,553
-	-
$ -	$ 153,764
$ -	$ 2,930
-	2,513
$ -	$ 5,443
$ -	$ 22,716
-	-
$ -	$ 22,716
$ -	$ 219,609

CITY OF STUART, IOWA
COMBINING SCHEDULE OF CASH TRANSACTIONS
SPECIAL REVENUE FUNDS
Year Ended June 30, 2003

Schedule 2
(continued)

	Road Use Tax	Employee Benefits	Emergency
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ 10,116	$ (33,904)	$ 8,142
Other financing sources (uses):			
Operating transfers in (out):			
Debt service fund	$ (9,536)	$ -	$ -
General	-	-	(18,011)
Total other financing sources (uses)	$ (9,536)	$ -	$ (18,011)
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	$ 580	$ (33,904)	$ (9,869)
BALANCE, Beginning of year	203,713	71,404	39,813
BALANCE, End of year	$ 204,293	$ 37,500	$ 29,944

See accompanying independent auditor's report.

Urban Renewal Tax Increment	Total
$ 146,450	$ 130,804
$ -	$ (9,536)
(122,131)	(140,142)
$(122,131)	$ (149,678)
$ 24,319	$ (18,874)
138,095	453,025
$ 162,414	$ 434,151

CITY OF STUART, IOWA
COMBINING SCHEDULE OF CASH TRANSACTIONS
DEBT SERVICE FUND
Year Ended June 30, 2003

Schedule 3

	General Obligation Bonds	Special Assessments	Total
RECEIPTS:			
Property taxes	$157,594	$ 22,666	$180,260
Use of money and property:			
Interest on investments	83	1,243	1,326
TOTAL RECEIPTS	$157,677	$ 23,909	$181,586
DISBURSEMENTS:			
Debt service:			
Principal redemption	$149,537	$ -	$149,537
Interest	40,828	-	40,828
TOTAL DISBURSEMENTS	$190,365	$ -	$190,365
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (32,688)	$ 23,909	$ (8,779)
Other financing sources (uses):			
Operating transfers in (out):			
General	$ 27,730	$ -	$ 27,730
Debt service	8,265	(8,265)	-
Total other financing sources (uses)	$ 35,995	$ (8,265)	$ 27,730
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	$ 3,307	$ 15,644	$ 18,951
BALANCE, Beginning of year	18,870	98,408	117,278
BALANCE, End of year	$ 22,177	$ 114,052	$136,229

See accompanying independent auditor's report.

CITY OF STUART, IOWA
SCHEDULE OF CASH TRANSACTIONS
CAPITAL PROJECT FUND
Year Ended June 30, 2003

Schedule 4

RECEIPTS:	
Miscellaneous:	
Miscellaneous	$ 499
TOTAL RECEIPTS	$ 499
DISBURSEMENTS:	
Capital outlay	$ 3,550
TOTAL DISBURSEMENTS	3,550
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (3,051)
BALANCE, Beginning of year	32,435
BALANCE, End of year	$ 29,384

See accompanying independent auditor's report.

CITY OF STUART
COMBINING SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUND
Year Ended June 30, 2003

Schedule 5

	Sewer Operation	Sewer Sinking Fund	Sewer General
RECEIPTS:			
Use of money and property:			
Interest on investments	$ 17,812	$ -	$ -
Intergovernmental:			
Federal grants	$ 204,783	$ -	$ -
Charges of service:			
Sewer rental	$ 166,384	$ -	$ -
Cable TV subscriber fees	625	-	-
	$ 167,009	$ -	$ -
Miscellaneous:			
Sales tax collected	$ 1,747	$ -	$ -
Miscellaneous	-	-	-
	$ 1,747		
TOTAL RECEIPTS	$ 391,351	$ -	$ -
DISBURSEMENTS:			
Sewer:			
Personal services	$ 37,328	$ -	$ -
Services and commodities	43,553	300	-
Capital outlay	534,540	-	-
Debt service:			
Principal redemption	3,800	40,000	-
Interest payments	196	15,615	-
TOTAL DISBURSEMENTS	$ 619,417	$ 55,915	$ -
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (228,066)	$ (55,915)	$ -
Other financing sources (uses)			
Loan proceeds	$ 11,425	$ -	$ -
Operating transfers in (out):			
Enterprise			
Sewer	195,000	55,000	(250,000)
Total other financing sources (uses)	$ 206,425	$ 55,000	$(250,000)

See accompanying independent auditor's report.

Sewer Bond Reserve	Sewer Sinking II	Sewer Improvement Fund	Sewer Improvement II	Total
$ -	$ -	$ 782	$ 643	$ 19,237
$ -	$ -	$ -	$ -	$ 204,783
$ -	$ -	$ -	$ -	$ 166,384
-	-	-	-	625
$ -	$ -	$ -	$ -	$ 167,009
$ -	$ -	$ -	$ -	$ 1,747
-	-	-	-	-
				$ 1,747
$ -	$ -	$ 782	$ 643	$ 392,776
$ -	$ -	$ -	$ -	$ 37,328
-	-	-	-	43,853
-	-	-	-	534,540
-	-	-	-	43,800
-	-	-	-	15,811
$ -	$ -	$ -	$ -	$ 675,332
$ -	$ -	$ 782	$ 643	$(282,556)
$ -	$ -	$ -	$ -	$ 11,425
-	-	-	-	-
$ -	$ -	$ -	$ -	$ 11,425

CITY OF STUART
COMBINING SCHEDULE OF CASH TRANSACTIONS
ENTERPRISE FUND
Year Ended June 30, 2003

Schedule 5
(continued)

	Sewer Operation	Sewer Sinking Fund	Sewer General
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING	$ (21,641)	$ (915)	$(250,000)
BALANCE, Beginning of year	94,143	7,972	300,000
BALANCE, End of year	$ 72,502	$ 7,057	$ 50,000

See accompanying independent auditor's report.

Sewer Bond Reserve	Sewer Sinking II	Sewer Improvement Fund	Sewer Improvement II	Total
$ -	$ -	$ 782	$ 643	$(271,131)
51,000	71,000	46,940	38,595	609,650
$51,000	$71,000	$ 47,722	$ 39,238	$ 338,519

CITY OF STUART, IOWA
COMBINING SCHEDULE OF CASH TRANSACTIONS
TRUST AND AGENCY FUNDS
Year Ended June 30, 2003

Schedule 6

	Expendable Trust	Non-Expendable Trust			
	Fire & Rescue Building	Library Memorial	Library	Cemetery Perpetual Care	Total
RECEIPTS:					
Uses of money:					
Interest on deposits	$ 1,107	$ 17	$ 1,803	$ 2,090	$ 5,017
Miscellaneous:					
Miscellaneous	-	-	11,838	1,482	13,320
TOTAL RECEIPTS	$ 1,107	$ 17	$13,641	$ 3,572	$ 18,337
DISBURSEMENTS:					
Public safety:					
Capital outlay	$ 1,596	$ -	$ -	$ -	$ 1,596
TOTAL DISBURSEMENTS	$ 1,596	$ -	$ -	$ -	$ 1,596
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (489)	$ 17	$13,641	$ 3,572	$ 16,741
BALANCE, Beginning of year	784	1,260	36,877	75,791	114,712
BALANCE, End of year	$ 295	$ 1,277	$50,518	$ 79,363	$ 131,453

See accompanying independent auditor's report.

CITY OF STUART, IOWA
BOND AND OTHER DEBT MATURITIES
JUNE 30, 2003

Schedule 7

Year Ending June 30,	General Obligation Bonds Street Improvements Issued August 1, 1994 Interest Rates	Amount	Special Assessment Notes Street Improvement Issued February 8, 1999 Interest Rates	Amount
2004	5.50%	$ 70,000	4.80%	$ 5,000
2005	5.80%	70,000	4.85%	10,000
2006		-	4.90%	10,000
2007		-	5.00%	10,000
2008		-	5.05%	10,000
2009		-	5.10%	10,000
Total		$ 140,000		$ 55,000

Year Ending June 30,	General Obligation Capital Loan Notes Street Improvements Issued February 8, 1999 Interest Rates	Amount	Street Improvements Issued December 1, 2001 Interest Rates	Amount	
2004	4.30%	$ 35,000	3.75%	$ 20,000	$ 55,000
2005	4.35%	40,000	4.00%	20,000	60,000
2006	4.40%	40,000	4.15%	20,000	60,000
2007	4.45%	40,000	4.30%	20,000	60,000
2008	4.50%	45,000	4.45%	20,000	65,000
2009	4.60%	45,000	4.60%	20,000	65,000
2010		-	4.75%	25,000	25,000
2011		-	4.90%	25,000	25,000
2012		-	5.00%	25,000	25,000
Total		$ 245,000		$ 195,000	$ 440,000

Year Ending June 30,	Revenue Notes Sewer Issued August 1, 1994 Interest Rates	Amount	Sewer Issued March 1, 1996 Interest Rates	Amount	Total
2004		$ -	5.05%	$ 40,000	$ 40,000
2005		-	5.15%	40,000	40,000
2006	6.05%	45,000		-	45,000
2007	6.15%	50,000		-	50,000
2008	6.25%	55,000		-	55,000
Total		$ 150,000		$ 80,000	$ 230,000

See accompanying independent auditor's report.

CITY OF STUART, IOWA
BOND AND OTHER DEBT MATURITIES
JUNE 30, 2003

Schedule 7
(continued)

Year Ending June 30,	Other Debt: Equipment Note Issued June 8, 2001 Interest Rates	Amount	Equipment Note Issued May 2, 2002 Interest Rates	Amount	Equipment Note Issued August 1, 2002 Interest Rates	Amount
2004	5.50%	$ 8,931	4.25%	$ 9,000	0.00%	$ 2,323
2005		-	4.25%	9,000	0.00%	2,323
2006		-	4.25%	9,000	0.00%	2,323
2007		-	4.25%	9,000	0.00%	2,322
2008		-		-	0.00%	2,322
Total		$ 8,931		$ 36,000		$ 11,613

Year Ending June 30,	Other Debt: Equipment Note Issued August 15, 2002 Interest Rates	Amount	Equipment Note Issued January 13, 2003 Interest Rates	Amount	Total
2004	4.50%	$ 3,800	4.50%	$ 10,204	$ 34,258
2005	4.50%	3,825	4.50%	10,664	25,812
2006		-	4.50%	11,053	22,376
2007		-		-	11,322
2008		-		-	2,322
Total		$ 7,625		$ 31,921	$ 96,090

See accompanying independent auditor's report.

CITY OF STUART, IOWA
TAXES AND INTERGOVERNMENTAL RECEIPTS
Year Ended June 30, 2003

	Schedule 8
Property tax	$ 538,117
Tax incremental financing collections	$ 142,586
Other city tax:	
Hotel/motel tax	$ 66,292
Intergovernmental:	
State allocation	$ 25,987
Bank franchise tax	13,763
Road use allocation	139,380
Federal cops grant	112,120
Community development block grant	204,783
Miscellaneous	93,938
	$ 589,971
Total	$1,336,966

See accompanying independent auditor's report.

CITY OF STUART, IOWA
SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2003

Schedule 9

Federal grantor/pass-through grant/program name	Federal CFDA Number	Total Federal Expenditures
United States Department of Housing and Urban Development:		
Passed through Iowa Department of Economic Development		
Community Development Block Grant*	14.228	$ 204,783
United States Department of Justice:		
Community oriented policing services grant	16.710	$ 112,120
Passed through Iowa Governor's Office of Drug Control Policy:		
Local law enforcement block grant	16.592	8,725
Total United States Department of Justice		$ 120,845
United States Department of Transportation:		
Passed through Iowa Department of Transportation		
Highway Planning and Construction Grant	20.205	$ 46,636
Total federal expenditures		$ 372,284

*Major federal financial assistance program

See accompanying independent auditor's report and notes to schedule of expenditures to federal awards.

CITY OF STUART, IOWA
NOTES TO SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS
Year Ended June 30, 2003

Note 1. Basis of Presentation

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the City of Stuart, Iowa, and is presented on the cash basis of accounting. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of State, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE AND ON INTERNAL CONTROL OVER FINANCIAL REPORTING

To the Honorable Mayor and
Members of the City Council
City of Stuart, Iowa
Stuart, Iowa

We have audited the financial statements listed as exhibits in the table of contents of this report of the City of Stuart, Iowa, as of and for the year ended June 30, 2003, and have issued our report thereon dated January 9, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether City of Stuart, Iowa, financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance 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 noncompliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of noncompliance that are described in the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2003, 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.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered City of Stuart, Iowa's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Stuart, Iowa's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in of the accompanying Schedule of Findings and Questioned Costs as items II-A-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe none of the reportable conditions described above is a material weakness. We also noted other matters involving internal control over financial reporting that we have reported to management of the City of Stuart, Iowa, in a separate letter dated January 9, 2004.

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 Stuart, Iowa, and other parties to whom the City of Stuart, Iowa, may report and is not intended to be and should not be used by anyone other than these specified parties.

Dreyer, Snodgrass, Middleton & Co., P.C.

January 9, 2004

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INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE

To the Honorable Mayor and
Members of the City Council
City of Stuart, Iowa
Stuart, Iowa

Compliance

We have audited the compliance of City of Stuart, Iowa, with types of compliance requirements described in the U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2003. City of Stuart, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of City of Stuart, Iowa's management. Our responsibility is to express an opinion on City of Stuart, Iowa's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States; and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with and types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about City of Stuart, Iowa's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on City of Stuart, Iowa's compliance with those requirements.

In our opinion, the City of Stuart, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2003.

Internal Control Over Compliance

The management of City of Stuart, Iowa, is responsible for establishing and maintaining effective internal control over compliance with the requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered City of Stuart, Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on the internal control over compliance in accordance with OMB Circular A-133.

We noted certain matters involving the internal control over compliance and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect City of Stuart, Iowa's ability to administer a major federal program in accordance with the applicable requirements of laws, regulations, contracts and grants. Reportable conditions are described in the accompanying schedule of findings and questioned costs as items III-A-03.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe that none of the reportable conditions described above is a material weakness.

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 Stuart, Iowa, and other parties to whom the City of Stuart 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.

Drogan, Snodgrass, McMahon & Co, P.C.

January 9, 2004

CITY OF STUART, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

Part I: Summary of the Independent Auditor's Results:

a A qualified opinion was issued on the financial statements which 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.

b Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements.

c The audit did not disclose any non-compliance which is material to the financial statements.

d A reportable condition in internal control over the major program was disclosed by the audit of the financial statements.

e An unqualified opinion was issued on compliance with requirements applicable to the major program.

f The audit disclosed no audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).

g The major program was CFDA Number 14.228 – Community Development Block Grants/State's Program.

h The dollar threshold used to distinguish between Type A and Type B programs was $300,000.

i The City of Stuart, Iowa, did not qualify as a low-risk auditee.

CITY OF STUART, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS

II-A-03 Segregation of Duties – A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City of Stuart, Iowa.

Recommendation – We realize that with a limited number of office employees, segregation of duties is difficult. However, the City of Stuart, Iowa should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We have reviewed this recommendation and we will review our procedures to obtain the maximum control possible.

Conclusion – Response acknowledged.

II-B-03 Recording of Transactions – The City had two purchases that were noted during the audit that were not included in the City records as the payment for the transaction was made direct from the financing source to the supplier. Upon further review, there were no other such transactions noted that were not included on the City records.

Recommendation – We strongly recommend that procedures be established to ensure that all transactions of the City are timely and properly recorded as they occur for each period.

Response – We will establish procedures to ensure that all financing activities are first received and receipted to the city records and the payment is made from City rather than direct from the financing sources.

Conclusion – Response acknowledged.

CITY OF STUART, IOWA
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2003

Part III: Findings and Questioned Costs for Federal Awards:

Instances of Non-Compliance:

No matters were noted.

Reportable Conditions:

III-A-03 Segregation of Duties Over Federal Awards – The City did not properly segregate the accounting and financial duties, including those related to federal awards. See item II-B-03.

Part IV: Other Findings Related to Required Statutory Report:

IV-A-03 Depository Banks – A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2003.

IV-B-03 Certified Budget – Disbursements during the year ended June 30, 2003, exceeded the amounts budgeted in the Debt Service Function. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – Although the budget was amended during the year, it should also have included amendments in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget functions.

Response – We will monitor the debt service budget to ensure that when additional debt is obtained that the additional payments are included in the budgeted amounts or the budget is amended property to cover those payments.

Conclusion – Response acknowledged.

IV-C-03 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

IV-D-03 Travel Expense – No disbursements of the City of Stuart, Iowa's money for travel expenses of spouses of the City of Stuart, Iowa's officials or employees were noted.

IV-E-03 Business Transactions – We noted no business transactions between the City of Stuart, Iowa and the City of Stuart, Iowa's officials or employees.

IV-F-03 Bond Coverage – Surety bond coverage of the City of Stuart, Iowa's officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

IV-G-03 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

The City of Stuart, Iowa, published all annual gross salaries as required by an Attorney General's opinion dated April 12, 1979.

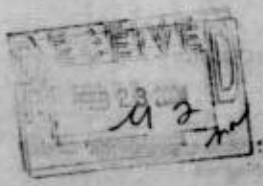
Although minutes of Council proceedings were published, they did not include a summary of receipts as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation – The City should comply with Chapter 372.13(6) of the Code of Iowa and should include a summary of the receipts as required.

Response – We will establish procedures to include the summary of receipts with the published minutes.

Conclusion – Response acknowledged.

IV-H-03 Revenue Bonds – The City of Stuart, Iowa has complied with the provisions of the revenue bond indentures.

IV-I-03 Deposits and Investments – The City of Stuart, Iowa has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City of Stuart, Iowa's investment policy were noted.