



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

NEWS RELEASE

FOR RELEASE

March 31, 2008

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Stuart, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2007, with significant changes in content and structure of the financial statements. The new financial statements now include a Statement of Activities and Net Assets which provides information about the activities of the City as a whole. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's receipts totaled \$2,002,873 for the year ended June 30, 2007. The receipts included \$539,472 in property tax, \$110,409 from tax increment financing, \$417,740 from charges for service, \$242,852 from operating grants, contributions and restricted interest, \$153,389 from capital grants, contributions and restricted interest, \$136,359 from local option sales tax, \$77,132 from hotel/motel tax, \$43,439 from bank loan proceeds, \$264,610 from note proceeds, \$15,286 from unrestricted interest on investments and \$2,185 from other general receipts.

Disbursements for the year totaled \$1,764,962, and included \$495,861 for public safety, \$313,911 for public works and \$248,271 for general government. Also, disbursements for business type activities totaled \$394,833.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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

JUNE 30, 2007

Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor’s Report		5-6
Management’s Discussion and Analysis		7-12
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	14-15
Governmental Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	16-17
Proprietary Fund Financial Statement:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	18
Notes to Financial Statements		19-25
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund		28-29
Notes to Required Supplementary Information – Budgetary Reporting		30
Other Supplementary Information:	<u>Schedule</u>	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	32-33
Schedule of Indebtedness	2	34-35
Note Maturities	3	36-37
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>		39-40
Schedule of Findings		41-47
Staff		48

City of Stuart

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Cheryl Marks	Mayor	Jan 2010
Mick Askren	Mayor Pro tem	Jan 2008
Dick Cook	Council Member	(Resigned)
Cory Waddell (appointed)	Council Member	Nov 2007
Bryan Belden	Council Member	Jan 2010
Neal Crawford	Council Member	Jan 2010
Jeff Sherman	Council Member	Jan 2010
Ashraf M. Ashour	Administrator/Clerk/Treasurer	Indefinite
William Bump	Attorney	Indefinite

City of Stuart



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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 Stuart, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Stuart's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Stuart Municipal Utilities, a discretely presented component unit. Those financial statements were audited by another auditor whose report has been furnished to us, and our opinion, insofar as it relates to the condensed financial information included in Note 8 for the discretely presented component unit, is based solely on the report of the other auditor.

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 our audit and the report of the other auditor 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. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006.

As described in Note 8, the City has chosen to present condensed financial information for the Stuart Municipal Utilities, a discretely presented component unit since complete financial statements of the component unit have been audited by another auditor and are available from the component unit. The report of the other auditor, dated November 9, 2007, expressed an unqualified opinion on the financial statements.

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, 2006, as discussed in the preceding paragraph, based on our audit and the report of the other auditor, 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 Stuart as of June 30, 2007, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 11, during the year ended June 30, 2007, the City adopted 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; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

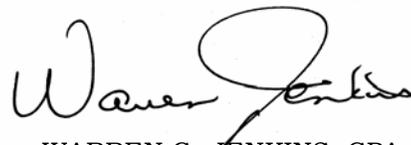
In accordance with Government Auditing Standards, we have also issued our report dated February 21, 2008 on our consideration of the City of Stuart’s internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management’s Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 28 through 30 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stuart’s basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, 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, 2006, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 21, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stuart provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with significant changes in content and structure, and since the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2007 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased approximately \$207,000 due primarily to donations for the aquatic center and private street assessments for Division Street.
- The cash basis net assets of the City's business type activities increased approximately \$31,000, due primarily to proceeds from revenue notes and a bank loan used for paying off an old bond issue, a capital project and an equipment purchase.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's outstanding indebtedness.

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 operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers 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 that helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases 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 sewer system. These activities are financed primarily by user fees and related charges.

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Capital Projects Fund, 4) the Debt Service Fund and 5) the Permanent 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.

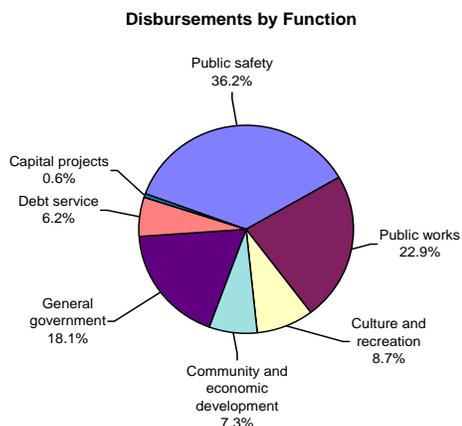
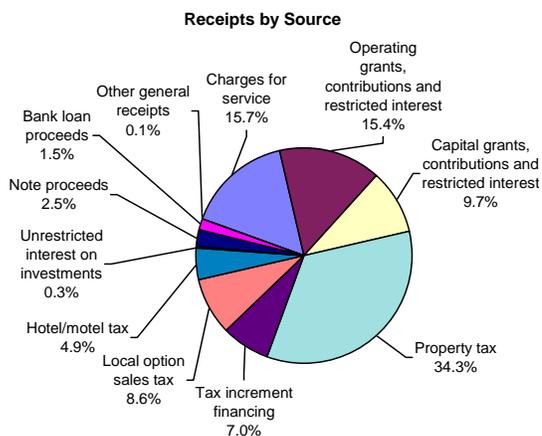
2) The proprietary fund accounts for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for sewer operations. The Sewer Fund is considered to be a major fund of the City.

The required financial statement for proprietary funds is 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. The City's cash balance for governmental activities increased from a year ago, increasing from \$1,037,588 to \$1,244,743. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service	\$ 247,250
Operating grants, contributions and restricted interest	242,852
Capital grants, contributions and restricted interest	153,389
General receipts:	
Property tax	539,472
Tax increment financing	110,409
Local option sales tax	136,359
Hotel/motel tax	77,132
Unrestricted interest on investments	4,570
Bank loan proceeds	24,000
Note proceeds	40,000
Other general receipts	1,851
Total receipts	<u>1,577,284</u>
Disbursements:	
Public safety	495,861
Public works	313,911
Culture and recreation	119,534
Community and economic development	99,741
General government	248,271
Debt service	84,822
Capital projects	7,989
Total disbursements	<u>1,370,129</u>
Increase in cash basis net assets	207,155
Cash basis net assets beginning of year	<u>1,037,588</u>
Cash basis net assets end of year	<u>\$ 1,244,743</u>



The increase in cash basis net assets of the City's governmental activities was due primarily to collections for capital projects not completely being spent during the year.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2007
Receipts:	
Program receipts:	
Charges for service:	
Sewer	\$ 170,490
General receipts:	
Unrestricted interest on investments	10,716
Accrued interest from the sale of notes	334
Loan proceeds	19,439
Revenue note proceeds	224,610
Total receipts	<u>425,589</u>
Disbursements:	
Sewer	<u>394,833</u>
Increase in cash basis net assets	30,756
Cash basis net assets beginning of year	<u>298,068</u>
Cash basis net assets end of year	<u><u>\$ 328,824</u></u>

Total business type activities cash balance increased 10%, or \$30,756, from a year ago, increasing from \$298,068 to \$328,824. The increase was due to revenue note proceeds which were used to pay off an old debt issue and a capital project and also due to a bank loan used to purchase a pickup truck. Also, interest on investments increased over the prior year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Stuart completed the year, its governmental funds reported a combined fund balance of \$1,244,743, an increase of more than \$207,000 above last year's total of \$1,037,588. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased slightly, from \$283,440 to \$284,984.
- The Special Revenue, Road Use Tax Fund cash balance increased \$21,327 to \$256,766 during the fiscal year. This increase was attributable to road use tax allocations being greater than disbursements for the year.
- The Special Revenue, Employee Benefits Fund cash balance remained relatively consistent with an increase of \$9,229 over the prior fiscal year.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$15,280 to \$206,317 during the fiscal year. The increase in the balance is due primarily to tax increment financing receipts being greater than the amount needed to pay the development agreement debt of the City.
- The Capital Projects Fund cash balance increased \$154,600 over the prior year to a year-end balance of \$195,314. The increase represents donations for the aquatic center and for a street improvement project. Neither project had been started by the end of the fiscal year.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Sewer Fund cash balance increased \$30,756 to a year-end balance of \$328,824. The increase was due to revenue note proceeds which were used to pay off an old debt issue and a capital project and also due to a bank loan used to purchase a pickup truck. Also, interest on investments increased over the prior year.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The amendments were approved on January 8, 2007 and April 9, 2007 and resulted in an increase in operating disbursements related to six functions of approximately \$1,017,921 for an anticipated swimming pool bath house project, purchase of a police car and an increase in disbursements using reserves. The City anticipated the sale of general obligation notes and reserve funds to absorb these additional costs.

The City's receipts were \$158,482 more than budgeted. Other city taxes were \$13,053 more than budgeted, primarily due to the City receiving more than anticipated from hotel/motel tax and local option sales taxes. Charges for service were \$45,966 less than budgeted due to garbage and ambulance charges being less than expected. Miscellaneous receipts were \$168,139 more than budgeted due to donations for street and aquatic center not included in the budget.

Total disbursements were \$695,895 less than budgeted disbursements. This was primarily due to delays in the aquatic center project.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$668,461 in notes and other long-term debt outstanding, compared to \$611,217 at the end of last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year-End	
	June 30,	
	2007	2006
General obligation notes	\$ 422,700	464,000
Special assessment notes	20,000	30,000
Revenue notes	180,000	105,000
Bank loans	45,761	12,217
Total	\$ 668,461	611,217

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$468,461 is significantly below its constitutional debt limit of approximately \$3,413,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Stuart's elected and appointed officials and citizens considered many factors when setting the fiscal year 2008 budget, tax rates and fees charged for various City activities. The City's FY 2008 taxable valuation has increased \$235,684 over the FY 2007 level.

The FY 2008 budget contains total receipts of \$3,408,444 and disbursements of \$3,215,493. This budget did not change significantly from the FY 2007 budget which contained total receipts of \$3,407,334 and disbursements of \$3,224,589.

The FY 2008 levy is \$15.19814 per \$1,000 of taxable valuation, a decrease from \$15.20188 per \$1,000 for FY 2007. The employee benefit levy decreased from \$4.01930 per \$1,000 of taxable valuation for FY 2007 to \$3.94428 per \$1,000 of taxable valuation for FY 2008 and the debt service levy increased from \$1.67938 per \$1,000 of taxable valuation for FY 2007 to \$1.72430 per \$1,000 of taxable valuation for FY 2008.

These parameters were taken into account when adopting the budget for FY 2008.

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 Ashraf Ashour, City Administrator, 119 E. Front Street, Stuart, IA 50250.

Basic Financial Statements

City of Stuart

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2007

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 495,861	122,237	36,368	-
Public works	313,911	83,706	157,330	-
Culture and recreation	119,534	25,634	20,485	-
Community and economic development	99,741	-	4,612	-
General government	248,271	15,673	21,638	-
Debt service	84,822	-	1,498	6,721
Capital projects	7,989	-	921	146,668
Total governmental activities	1,370,129	247,250	242,852	153,389
Business type activities:				
Sewer	394,833	170,490	-	-
Total	\$ 1,764,962	417,740	242,852	153,389

General Receipts:

- Property and other city tax levied for:
 - General purposes
 - Tax increment financing
 - Debt service
- Local option sales tax
- Hotel/motel tax
- Unrestricted interest on investments
- Bank loan proceeds
- Note proceeds
- Miscellaneous

Total general receipts

Change in cash basis net assets

Cash basis net assets beginning of year

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:

- Streets
- Tax increment financing
- Debt service
- Capital projects
- Library trust
- Cemetery perpetual care
- 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
(337,256)	-	(337,256)
(72,875)	-	(72,875)
(73,415)	-	(73,415)
(95,129)	-	(95,129)
(210,960)	-	(210,960)
(76,603)	-	(76,603)
139,600	-	139,600
(726,638)	-	(726,638)
-	(224,343)	(224,343)
(726,638)	(224,343)	(950,981)
466,520	-	466,520
110,409	-	110,409
72,952	-	72,952
136,359	-	136,359
77,132	-	77,132
4,570	10,716	15,286
24,000	19,439	43,439
40,000	224,610	264,610
1,851	334	2,185
933,793	255,099	1,188,892
207,155	30,756	237,911
1,037,588	298,068	1,335,656
\$ 1,244,743	328,824	1,573,567
\$ 256,766	-	256,766
206,317	-	206,317
139,360	109,558	248,918
195,314	-	195,314
11,056	-	11,056
56,942	-	56,942
94,004	-	94,004
284,984	219,266	504,250
\$ 1,244,743	328,824	1,573,567

City of Stuart

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

As of and for the year ended June 30, 2007

	Special Revenue			
	General	Road Use Tax	Employee Benefits	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 315,899	-	137,820	-
Tax increment financing	-	-	-	110,409
Other city tax	215,947	-	1,069	-
Licenses and permits	10,477	-	-	-
Use of money and property	9,817	1,997	2,023	4,612
Intergovernmental	37,865	155,763	-	-
Charges for service	223,144	-	-	-
Special assessments	-	-	-	-
Miscellaneous	40,965	-	-	-
Total receipts	854,114	157,760	140,912	115,021
Disbursements:				
Operating:				
Public safety	429,222	-	66,599	-
Public works	143,834	136,433	33,644	-
Culture and recreation	113,493	-	6,041	-
Community and economic development	99,741	-	-	-
General government	216,872	-	31,399	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,003,162	136,433	137,683	-
Excess (deficiency) of receipts over (under) disbursements	(149,048)	21,327	3,229	115,021
Other financing sources (uses):				
Sale of property	1,851	-	-	-
Bank loan proceeds	24,000	-	-	-
Note proceeds	40,000	-	-	-
Operating transfers in	99,741	-	6,000	-
Operating transfers out	(15,000)	-	-	(99,741)
Total other financing sources (uses)	150,592	-	6,000	(99,741)
Net change in cash balances	1,544	21,327	9,229	15,280
Cash balances beginning of year	283,440	235,439	33,871	191,037
Cash balances end of year	\$ 284,984	256,766	43,100	206,317
Cash Basis Fund Balances				
Reserved for debt service	\$ -	-	-	-
Unreserved:				
General fund	284,984	-	-	-
Special revenue funds	-	256,766	43,100	206,317
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 284,984	256,766	43,100	206,317

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	81,710	535,429
-	-	110,409
-	519	217,535
-	-	10,477
921	3,032	22,402
-	-	193,628
-	3,883	227,027
-	6,721	6,721
146,668	172	187,805
147,589	96,037	1,511,433
-	40	495,861
-	-	313,911
-	-	119,534
-	-	99,741
-	-	248,271
-	84,822	84,822
7,989	-	7,989
7,989	84,862	1,370,129
139,600	11,175	141,304
-	-	1,851
-	-	24,000
-	-	40,000
15,000	-	120,741
-	(6,000)	(120,741)
15,000	(6,000)	65,851
154,600	5,175	207,155
40,714	253,087	1,037,588
195,314	258,262	1,244,743
-	139,360	139,360
-	-	284,984
-	61,960	568,143
195,314	-	195,314
-	56,942	56,942
195,314	258,262	1,244,743

Exhibit C

City of Stuart

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

As of and for the year ended June 30, 2007

	<u>Enterprise</u> <u>Sewer</u>
Operating receipts:	
Charges for service	\$ 170,490
Operating disbursements:	
Business type activities	<u>131,224</u>
Excess of operating receipts over operating disbursements	<u>39,266</u>
Non-operating receipts (disbursements):	
Interest on investments	10,716
Accrued interest from the sale of notes	334
Capital projects	(99,754)
Debt service	<u>(163,855)</u>
Net non-operating receipts (disbursements)	<u>(252,559)</u>
Deficiency of receipts under disbursements	<u>(213,293)</u>
Other financing sources:	
Bank loan proceeds	19,439
Revenue note proceeds (net of \$5,390 discount and fees)	<u>224,610</u>
Total other financing sources	<u>244,049</u>
Net change in cash balance	30,756
Cash balance beginning of year	<u>298,068</u>
Cash balance end of year	<u>\$ 328,824</u>
Cash Basis Fund Balances	
Reserved for debt service	\$ 109,558
Unreserved	<u>219,266</u>
Total cash basis fund balances	<u>\$ 328,824</u>

See notes to financial statements.

City of Stuart

Notes to Financial Statements

June 30, 2007

(1) Summary of Significant Accounting Policies

The City of Stuart 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 and recreation, community and economic development and general government services. The City also provides water, electric and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the 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 the City's 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.

Discretely Presented Component Unit

The Stuart Municipal Utilities was established under Chapter 388 of the Code of Iowa to operate the City's water and electric utilities. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. In accordance with criteria set by the Governmental Accounting Standards Board, the Municipal Utilities meets the definition of a component unit which should be discretely presented. The condensed financial information in Note 8 is presented on the cash basis of accounting. Complete financial statements can be obtained from the Stuart Municipal Utilities, P.O. Box 370, Stuart, Iowa 50250.

Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do 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: Adair and Guthrie County Assessors' Conference Boards, Adair County Landfill Association, Adair and Guthrie County Emergency Management Commissions and Adair and Guthrie County Joint E911 Service Boards.

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 service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

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

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

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

The City reports the following major governmental funds:

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

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Employee Benefits Fund is used to account for employee pensions and other benefits.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. Measurement Focus and 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.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

(3) Notes Payable

Annual debt service requirements to maturity for general obligation notes, special assessment notes and sewer revenue notes are as follows:

Year Ending June 30,	General Obligation Notes		Special Assessment Notes		Sewer Revenue Notes		Total	
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 96,076	21,077	10,000	1,015	50,000	7,272	156,076	29,364
2009	97,546	16,565	10,000	510	35,000	5,297	142,546	22,372
2010	59,033	11,900	-	-	30,000	3,897	89,033	15,797
2011	59,545	8,958	-	-	30,000	2,683	89,545	11,641
2012	41,000	5,952	-	-	35,000	1,453	76,000	7,405
2013-2016	69,500	9,735	-	-	-	-	69,500	9,735
Total	\$ 422,700	74,187	20,000	1,525	180,000	20,602	622,700	96,314

Sewer Revenue Notes

The resolution providing for the issuance of the sewer revenue notes includes the following provisions.

- a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- b) Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- c) Additional monthly transfers shall be made to a sewer revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the notes when insufficient money shall be available in the sinking account.
- d) A sewer revenue improvement account shall be maintained with a required minimum balance of \$50,000. This account is restricted for the purpose of paying, at maturity, principal or interest on the notes when insufficient money shall be available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget and current expenses, payment of rentals on any part of the System or payments due for any property purchased as a part of the System and for capital improvements to the System.
- e) Sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the notes falling due in the same year.

(4) Bank Loans

On August 1, 2002, the City authorized an \$11,613 bank loan to purchase a siren. The loan is interest free and matures on August 1, 2007. Payments of \$2,323 were made during the year ended June 30, 2007 and the balance at June 30, 2007 was \$2,322.

On July 22, 2003, the City authorized a \$21,859 bank loan to purchase a pickup truck for the street department. The loan required interest at 5.50% per annum and matured on July 22, 2006. During the year ended June 30, 2007, the final principal payment of \$7,572, along with interest of \$302, was paid.

On July 11, 2006, the City authorized a \$19,439 bank loan to purchase a pickup truck for the sewer department. The loan bears interest at 5.50% per annum and matures on July 11, 2009. No payments were due on this loan during the year ended June 30, 2007. The City did not publish a notice and hold a public hearing to properly enter into this loan.

On November 21, 2006, the City authorized a \$24,000 bank loan to purchase a police car. The loan bears interest at 5.75% per annum and matures on November 21, 2009. No payments were due on this loan during the year ended June 30, 2007. The City did not publish a notice and hold a public hearing to properly enter into this loan.

(5) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2007 was \$39,313, equal to the required contribution for the year.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 11,000
Compensatory time	<u>10,000</u>
Total	<u>\$ 21,000</u>

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

(7) Interfund Transfers

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

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue: Urban Renewal Tax Increment	\$ 99,741
Special Revenue: Employee Benefits	Special Revenue: Library	6,000
Capital Projects	General	15,000
Total		<u>\$ 120,741</u>

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

(8) Stuart Municipal Utilities

The Stuart Municipal Utilities provides electric and water services to the City of Stuart. As permitted by GASB Statement No. 34, the City has opted to present condensed financial information for this discretely presented component unit. Following is the condensed financial information for the Municipal Utilities for the year ended June 30, 2007.

<u>Condensed Statement of Cash Receipts, Disbursements and Change in Cash Balance</u>		
Operating receipts:		
Sales to customers		\$ 1,851,316
Operating disbursements:		
Electric	\$ 1,232,267	
Water	371,803	1,604,070
		<u>1,604,070</u>
Excess of operating receipts over operating disbursements		247,246
Non-operating receipts (disbursements):		
Interest income	107,312	
Debt service	(405,421)	
Miscellaneous	123,983	
		<u>123,983</u>
Total non-operating receipts (disbursements)		<u>(174,126)</u>
Net change in cash balance		73,120
Cash balance beginning of year		<u>2,789,286</u>
Cash balance end of year		<u>\$ 2,862,406</u>

(9) 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.

(10) Subsequent Events

In August 2007, the City entered into a construction contract totaling \$93,340 for a walking trail and a construction contract totaling \$651,579 for a street improvement project. Also, in August 2007, the City issued \$605,000 of general obligation project anticipation notes to finance the street improvement project. The walking trail will be funded by TIF revenues already on hand. In September 2007, the City issued \$400,000 of general obligation notes for a bathhouse project at the swimming pool and accepted a bid not to exceed \$138,000 for the 2007 street maintenance project.

(11) Accounting Change

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; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences were implemented for the year ended June 30, 2007. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Implementation of these standards had no effect on the beginning balances of the City.

City of Stuart

Required Supplementary Information

City of Stuart
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Fund

Required Supplementary Information

Year ended June 30, 2007

	Governmental Funds Actual	Proprietary Fund Actual	Total
Receipts:			
Property tax	\$ 535,429	-	535,429
Tax increment financing	110,409	-	110,409
Other city tax	217,535	-	217,535
Licenses and permits	10,477	-	10,477
Use of money and property	22,402	10,716	33,118
Intergovernmental	193,628	-	193,628
Charges for service	227,027	170,490	397,517
Special assessments	6,721	-	6,721
Miscellaneous	187,805	334	188,139
Total receipts	1,511,433	181,540	1,692,973
Disbursements:			
Public safety	495,861	-	495,861
Public works	313,911	-	313,911
Culture and recreation	119,534	-	119,534
Community and economic development	99,741	-	99,741
General government	248,271	-	248,271
Debt service	84,822	-	84,822
Capital projects	7,989	-	7,989
Business type activities	-	394,833	394,833
Total disbursements	1,370,129	394,833	1,764,962
Excess (deficiency) of receipts over (under) disbursements	141,304	(213,293)	(71,989)
Other financing sources (uses), net	65,851	244,049	309,900
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	207,155	30,756	237,911
Balances beginning of year	1,037,588	298,068	1,335,656
Balances end of year	\$ 1,244,743	328,824	1,573,567

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
535,390	535,390	39
107,589	107,589	2,820
204,482	204,482	13,053
8,000	8,000	2,477
18,087	18,087	15,031
184,847	184,847	8,781
443,483	443,483	(45,966)
11,515	12,613	(5,892)
20,000	20,000	168,139
<u>1,533,393</u>	<u>1,534,491</u>	<u>158,482</u>
470,758	543,758	47,897
321,895	374,895	60,984
87,751	613,751	494,217
107,589	107,589	7,848
201,935	291,635	43,364
73,008	85,621	799
10,000	10,000	2,011
170,000	433,608	38,775
<u>1,442,936</u>	<u>2,460,857</u>	<u>695,895</u>
90,457	(926,366)	854,377
-	770,996	(461,096)
90,457	(155,370)	393,281
<u>770,858</u>	<u>671,343</u>	<u>664,313</u>
<u>861,315</u>	<u>515,973</u>	<u>1,057,594</u>

City of Stuart

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2007

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Proprietary Fund. 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, two budget amendments increased budgeted disbursements by \$1,017,921. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

Other Supplementary Information

City of Stuart

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

As of and for the year ended June 30, 2007

	Special Revenue		
	Emergency	Expendable Trusts	
		Library	Fire/Rescue
Receipts:			
Property tax	\$ 9,204	-	-
Other city tax	72	-	-
Use of money and property	550	566	591
Charges for service	-	-	-
Special assessments	-	-	-
Miscellaneous	-	-	-
Total receipts	9,826	566	591
Disbursements:			
Operating:			
Public safety	-	-	40
Debt service	-	-	-
Total disbursements	-	-	40
Excess (deficiency) of receipts over (under) disbursements	9,826	566	551
Other financing uses:			
Operating transfers out	-	(6,000)	-
Net change in cash balances	9,826	(5,434)	551
Cash balances beginning of year	39,797	16,490	730
Cash balances end of year	\$ 49,623	11,056	1,281
Cash Basis Fund Balances			
Reserved for debt service	\$ -	-	-
Unreserved:			
Special revenue funds	49,623	11,056	1,281
Permanent fund	-	-	-
Total cash basis fund balances	\$ 49,623	11,056	1,281

See accompanying independent auditor's report.

Debt Service	Permanent Cemetery Perpetual Care	Total
72,506	-	81,710
447	-	519
1,325	-	3,032
-	3,883	3,883
6,721	-	6,721
172	-	172
<u>81,171</u>	<u>3,883</u>	<u>96,037</u>
-	-	40
84,822	-	84,822
<u>84,822</u>	-	<u>84,862</u>
(3,651)	3,883	11,175
-	-	<u>(6,000)</u>
(3,651)	3,883	5,175
143,011	53,059	253,087
<u>139,360</u>	<u>56,942</u>	<u>258,262</u>
139,360	-	139,360
-	-	61,960
-	56,942	56,942
<u>139,360</u>	<u>56,942</u>	<u>258,262</u>

City of Stuart
Schedule of Indebtedness
Year ended June 30, 2007

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation notes:			
Street improvements	Mar 1, 1999	4.10 - 4.60%	\$ 375,000
Division street improvements	Dec 1, 2001	3.50 - 5.00	215,000
TIF project	May 15, 2005	5.50	155,000
Fire truck	Nov 1, 2005	4.75	44,000
Rescue unit	May 1, 2007	5.00	40,000
Total			
Special assessment notes:			
Street improvement	Mar 1, 1999	4.50 - 5.10%	\$ 75,000
Revenue notes:			
Sewer	Aug 1, 1994	6.05-6.25%	\$ 150,000
Sewer	Sep 15, 2006	3.95-4.15	230,000
Total			
Bank loans:			
Siren	Aug 1, 2002	0.00%	\$ 11,613
Street department pickup truck	Jul 22, 2003	5.50	21,859
Sewer department pickup truck	Jul 11, 2006	5.50	19,439
Police car	Nov 21, 2006	5.75	24,000
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
130,000	-	40,000	90,000	5,875
135,000	-	20,000	115,000	6,333
155,000	-	12,500	142,500	8,525
44,000	-	8,800	35,200	2,153
-	40,000	-	40,000	-
<u>\$ 464,000</u>	<u>40,000</u>	<u>81,300</u>	<u>422,700</u>	<u>22,886</u>
30,000	-	10,000	20,000	1,515
105,000	-	105,000	-	4,016
-	230,000	50,000	180,000	4,264
<u>\$ 105,000</u>	<u>230,000</u>	<u>155,000</u>	<u>180,000</u>	<u>8,280</u>
4,645	-	2,323	2,322	-
7,572	-	7,572	-	302
-	19,439	-	19,439	-
-	24,000	-	24,000	-
<u>\$ 12,217</u>	<u>43,439</u>	<u>9,895</u>	<u>45,761</u>	<u>302</u>

City of Stuart
Note Maturities
June 30, 2007

Year Ending June 30,	General Obligation Notes					
	Street Improvements		Division Street Improvements		TIF Project	
	Issued Mar 1, 1999		Issued Dec 1, 2001		Issued May 15, 2005	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2008	4.50%	\$ 45,000	4.45%	\$ 20,000	5.50%	\$ 13,000
2009	4.60	45,000	4.60	20,000	5.50	14,000
2010		-	4.75	25,000	5.50	15,000
2011		-	4.90	25,000	5.50	15,000
2012		-	5.00	25,000	5.50	16,000
2013		-		-	5.50	16,000
2014		-		-	5.50	17,500
2015		-		-	5.50	18,000
2016		-		-	5.50	18,000
Total		<u>\$ 90,000</u>		<u>\$ 115,000</u>		<u>\$ 142,500</u>

Year Ending June 30,	Special Assessment Notes		Sewer Revenue Notes	
	Issued Mar 1, 1999		Issued Sep 15, 2006	
	Interest Rates	Amount	Interest Rates	Amount
2008	5.05%	\$ 10,000	3.95%	\$ 50,000
2009	5.10	10,000	4.00	35,000
2010		-	4.05	30,000
2011		-	4.10	30,000
2012		-	4.15	35,000
Total		<u>\$ 20,000</u>		<u>\$ 180,000</u>

See accompanying independent auditor's report.

Fire Truck		Rescue Unit		Total
Issued Nov 1, 2005		Issued May 1, 2007		
Interest Rates	Amount	Interest Rates	Amount	
4.75%	\$ 8,800	5.00%	\$ 9,276	96,076
4.75	8,800	5.00	9,746	97,546
4.75	8,800	5.00	10,233	59,033
4.75	8,800	5.00	10,745	59,545
	-		-	41,000
	-		-	16,000
	-		-	17,500
	-		-	18,000
	-		-	18,000
	<u>\$ 35,200</u>		<u>\$ 40,000</u>	<u>422,700</u>

City of Stuart



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

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 Stuart, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 21, 2008. Our report expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2006. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Stuart's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Stuart's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Stuart's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe items (A) and (B) are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stuart's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Stuart 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 21, 2008

City of Stuart

Schedule of Findings

Year ended June 30, 2007

Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

(A) Segregation of Duties – One important element in designing internal control that safeguards assets and reasonably ensures the reliability of the accounting records is the concept of segregation of duties. When duties are properly segregated the activities of one employee act as a check of those of another. One person has control over each of the following areas:

- (1) Cash – handling petty cash, reconciling and depositing.
- (2) Investments – investing, recording and custody.
- (3) Receipts – receiving, recording and custody.
- (4) Disbursements – purchasing, preparing checks and recording.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – We will review our procedures to obtain the maximum control possible.

Conclusion – Response accepted.

(B) Records of Accounts – The City maintains a separate bank account for the aquatic center project. The financial transactions and the resulting balance was not entirely included in the City's accounting records and was not included in the City's annual budget or monthly financial reports. However, the financial transactions and the resulting balance is included in these financial statements.

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any City purpose." For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City's accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – We now include this account on our records.

Conclusion – Response accepted.

City of Stuart

Schedule of Findings

Year ended June 30, 2007

- (C) Dual Signatures on Checks – The City does not require dual signatures on each check issued.

Recommendation – The City should require dual signatures on all checks issued. The second signature should be an independent person who should also review supporting documentation for each check to ensure each disbursement is proper.

Response – We will designate another person to sign checks and review documentation for each check.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

City of Stuart
 Schedule of Findings
 Year ended June 30, 2007

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Cheryl Marks, Mayor, husband owns Jeff Marks Custom Building	Sidewalk around gazebo	\$ 2,117
Bryan Belden, Council Member, father owns Shaw-Belden Insurance Agency	Insurance package, per bid	45,382

In accordance with Chapter 362.5(11) of the Code of Iowa, the transactions with the Mayor and Council Member do not appear to represent conflicts of interest since total transactions with each individual were either less than \$2,500 during the fiscal year or were competitively bid.

- (5) Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not, except as noted below.

Although salaries were published for the 2006 calendar year, they were not published in accordance with an Attorney General’s opinion dated April 12, 1978.

Recommendation – According to the Attorney General’s opinion, salaries for each employee should be published annually.

Response – We published approved salaries for each position but will publish each individual employee’s total wages for each year in the future.

Conclusion – Response accepted.

City of Stuart

Schedule of Findings

Year ended June 30, 2007

- (7) Deposits and Investments – The City’s investment policy refers to Chapter 452 of the Code of Iowa, but the provisions previously contained in Chapter 452 have been moved to Chapters 12B and 12C of the Code of Iowa. Also, the City has several old outstanding checks dating back to 1995 that have not been remitted to the State Treasurer.

Recommendation – The City should amend the investment policy to refer to the proper sections of the Code of Iowa and should remit old outstanding checks to the State Treasurer as unclaimed property.

Response – We will update the investment policy to refer to the proper Code of Iowa chapter.

Conclusion – Response acknowledged. The City should also remit old outstanding checks to the State Treasurer.

- (8) Uniform Chart of Accounts – The City’s accounting system has been converted to the Uniform Chart of Accounts for City Governments in Iowa, except as noted below:

The Special Revenue, Employee Benefits, Library Expendable Trust and Fire and Rescue Expendable Trust Funds and the Permanent Fund, Cemetery Perpetual Care Fund were identified as “910” accounts. According to the Uniform Chart of Accounts, the Employee Benefits Fund should be classified as a “112” account, the expendable trusts should be established as “100” accounts and cemetery perpetual care should be classified as a “500” account.

Also, business type activities salaries were not coded to salary codes but were coded to other types of expenditure codes, resulting in the salary information not being properly identified to readers of the City’s financial reports.

Recommendation – The City should establish proper fund coding for all types of accounts and should properly identify salaries in the financial reports.

Response – We will update the account codes to comply with the uniform chart of accounts and will identify salaries for each department in the financial reports.

Conclusion – Response accepted.

- (9) Payment of General Obligation Notes – Certain general obligation notes were paid from the General Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.” In addition, in accordance with Chapter 403.19(2) of the Code of Iowa, TIF debt payments should be made from the Special Revenue, Urban Renewal Tax Increment Fund.

Recommendation – The City should transfer future debt funding contributions from the General Fund to the Debt Service Fund. Payments of the notes should then be disbursed from the Debt Service Fund. Payments of TIF debt should be made from the Special Revenue, Urban Renewal Tax Increment Fund.

Response – We will transfer funds to the Debt Service Fund and pay the general obligation debt from the Debt Service Fund and Special Revenue, Urban Renewal Tax Increment Fund as required.

Conclusion – Response accepted.

City of Stuart

Schedule of Findings

Year ended June 30, 2007

- (10) Emergency Fund – The City has levied taxes for emergency purposes and has properly recorded the resulting property tax receipts in the Special Revenue, Emergency Fund. However, the property tax collections have not been spent in recent years and the fund has accumulated \$49,623 at June 30, 2007.

Recommendation – The City should transfer amounts collected from the emergency levy to the General Fund each year. The Council should approve the use of the levy money to be spent in the General Fund.

Response – We plan to transfer this next year for specific projects.

Conclusion – Response accepted.

- (11) Tax Increment Financing (TIF) – The City's TIF debt consists of developer rebate agreements and grants for TIF projects in which the City agrees to rebate or grant TIF taxes to the developer(s) over a specified period of time or in exchange for certain infrastructure and other improvements. Funds on hand in the Special Revenue, Urban Renewal Tax Increment Fund at June 30, 2006 of \$191,037 were not deducted from the amount of debt certified December 1, 2006 in accordance with guidance provided. The City certified TIF debt totaling \$98,586 and estimated TIF collections for fiscal 2007 totaled approximately \$108,000. The City's estimated TIF collections exceeded the City's TIF debt. Since the City did not reduce the TIF certification by the \$191,037 on hand, the City requested excess TIF revenue of approximately \$200,000 at December 1, 2006, potentially resulting in actual excess TIF collections in future periods.

In addition, although the City used the recommended TIF debt certification forms, not all required elements were completed, such as the date approved and the details of the rebate agreements. These elements are required by Chapter 403.19(5) of the Code of Iowa.

The City has subsequently used \$106,740 of TIF collections to pay for a trail project as a result of an amendment to the Urban Renewal Plan on July 9, 2007. Although excess funds were used within the designated TIF area, TIF collections are only to be used for the payment of TIF indebtedness in accordance with Chapter 403.19(5) of the Code of Iowa.

Recommendation – The City should review the developer rebate agreements and other TIF agreements to determine the correct amount of TIF debt for future certifications. Any cash on hand in the Special Revenue, Urban Renewal Tax Increment Fund should be deducted from the debt amount in determining the amount to certify. The TIF debt certification forms should be properly completed to ensure all required elements are reported. In addition, the City should consult legal counsel regarding TIF collections in excess of certified debt requirements.

Response – The TIF balance has been used in the current year for a project. The TIF debt certification forms will be properly completed in the future. In addition, the City will consult legal counsel regarding TIF collections in excess of debt certification.

Conclusion – Response acknowledged. TIF balances should not be used for project expenses. According to Chapter 403.5 of the Code of Iowa, cities are required to approve an urban renewal plan which provides for a division of revenue (TIF) pursuant to Chapter 403.19 of the Code of Iowa.

City of Stuart

Schedule of Findings

Year ended June 30, 2007

Chapter 403.19(2) states, in part:

“That portion of the taxes each year in excess of such amount shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise, including bonds issued under the authority of section 403.9, subsection 1, incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area, and to provide assistance for low and moderate income family housing as provided in section 403.22,”

The City should consult TIF legal counsel regarding this matter, including corrective transfer of the \$106,740 of TIF collections used to pay for the trail project rather than indebtedness, as required by Chapter 403 of the Code of Iowa.

- (12) Bank Loans – The City entered into two bank loans during the year for a new police car and a sewer pickup truck. These loans were not properly entered into as required by the Code of Iowa, which requires the City to publish notices and hold public hearings.

Recommendation – The City should comply with the Code of Iowa when issuing debt.

Response – We will hold public hearings and comply with the Code of Iowa when issuing any kind of debt in the future.

Conclusion – Response acknowledged. According to Chapter 384.24A of the Code of Iowa, a city may enter into loan agreements to borrow money for any public purpose in accordance with the terms and procedures specified in Chapter 384.24A of the Code of Iowa. The City should consult legal counsel regarding the propriety and legal status of these loans. Since the loans were issued without following the statutory requirements, the City should determine its legal authority to appropriate any funds or make any payments on the debt.

- (13) Additional Compensation – A Council Member received payments of \$1,435 and \$1,120 for services performed as zoning administrator during calendar year 2006 and 2007, respectively. These payments are in addition to the Council salary/fee schedule authorized by City Ordinance.

Recommendation – This appears to violate Chapter 372.13(8) of the Code of Iowa which states "an elected city officer is not entitled to receive any other compensation for any other city office or city employment during that officer's tenure in office." The City should consult legal counsel to determine the disposition of this matter.

Response – The individual referred to above is no longer on the Council.

Conclusion – Response acknowledged. The City should consult legal counsel to determine the disposition of this matter.

City of Stuart

Schedule of Findings

Year ended June 30, 2007

- (14) Special Assessments – The special assessments received and the interest collected on the special assessments must be used by the City to pay interest and principal on the notes as rapidly as proceeds are collected in accordance with Chapter 384.68(3) of the Code of Iowa. The balance in the special assessments account in the Debt Service Fund was sufficient to retire notes in advance of the due dates.

In addition, Chapter 384.68(5) of the Code of Iowa states, in part, any excess of proceeds from special assessments remaining after all notes and interest for a particular improvement have been paid may be credited to the fund from which deficiencies for the improvement could have been paid.

Recommendation – The City should comply with Chapter 384.68(3) of the Code of Iowa. In addition, the City should review the special assessments account and transfer any excess balances to other funds in accordance with Chapter 384.68(5) of the Code of Iowa.

Response – We will pay these off next year.

Conclusion – Response accepted.

- (15) Payments to City Attorney – The City did not file a form 1099 with the Internal Revenue Service for legal payments in excess of \$600.

Recommendation – The City should ensure all IRS 1099 forms are properly completed and filed.

Response – We gave the attorney a 1099 this year.

Conclusion – Response accepted.

- (16) Budgeted Long-term Debt – The City did not report all long-term debt issuances and payments on the adopted budget schedule. General obligation notes for a TIF project issued May 15, 2005, a fire truck issued November 1, 2005 and a rescue unit issued May 1, 2007 were not reported. Also, one sewer revenue note issued September 15, 2006 and the two bank loans identified in finding (12) were not reported.

Recommendation – The City should report all general obligation notes, revenue notes and any other debt, such as bank loans or lease-purchase obligations, on the adopted budget form.

Response – New forms now have this information included.

Conclusion – Response accepted.

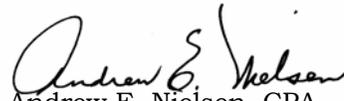
- (17) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Stuart

Staff

This audit was performed by:

Suzanne R. Dahlstrom, CPA, Manager
Paul F. Kearney, CGFM, Senior Auditor
Tiffany M. Maske, Assistant Auditor


Andrew E. Nielsen, CPA
Deputy Auditor of State