

STUART MUNICIPAL UTILITIES

INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2007

STUART MUNICIPAL UTILITIES

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STUART MUNICIPAL UTILITIES

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>TERM EXPIRES</u>
Dave Fry	Chairman, Board of Trustees	January 1, 2008
Tom Moon	Member, Board of Trustees	January 1, 2013
Dennis Cline	Member, Board of Trustees	January 1, 2011
Steve Gilman	Member, Board of Trustees	January 1, 2012
John Gulbranson	Member, Board of Trustee	January 1, 2012
Doug Christensen	Superintendent	
Ashraf Ashour	City Administrator	
Mike May	Utility Attorney	

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

We have audited the accompanying financial statements of the business type activities of the Stuart Municipal Utilities, as of and for the year ended June 30, 2007. These financial statements are the responsibility of Utilities 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 and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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.

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Stuart Municipal Utilities as of June 30, 2007, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated November 9, 2007, on our consideration of Stuart Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, 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 read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 8 and 17 through 18 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the Stuart Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2006 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, 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 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Drapen, Smidgrass, Mickelson + Co., P.C.

November 9, 2007

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

Financial Highlights

The Stuart Municipal Utilities total water fund balance increased by \$22,867 from the previous fiscal year. This increase is due to increase of sales. Electric fund balance increased by \$50,253 from the previous fiscal year. This increase is due to increase of sales.

Using this Annual Report

The annual report consists of a series of financial statements as well as other requirements as follows.

Management's discussion and analysis introduces the basic financial statements and provides an analytical overview of the Stuart Municipal Utilities financial activities.

The Stuart Municipal Utilities' financial statements consist of a statement of activities and changes in cash balances. The statements provided information about the activities of the water and electric as a whole and presents an overall view of the water and electric finances.

Notes to the financial statements provide additional information that is essential to a full understanding of the data provided in the basic financial statement.

Required supplementary information provided detailed information about the annual budget.

Basis of Accounting

The Stuart Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Stuart Municipal Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. The accounts of the Stuart Municipal Utilities 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 assets, liabilities, reserves, fund balance, receipts and disbursements.

Accordingly, the financial statements do not represent the financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind that limitation resulting from the use of cash basis accounting.

Reporting the Stuart Municipal Utilities Financial Activities

The statement of activities and changes in cash balance presents information showing how the Stuart Municipal Utilities cash balances changed during the most recent fiscal year.

The Stuart Municipal Utilities financial activities are displayed in the statement of activities and change in cash balance.

The business type activities of the Stuart Municipal Utilities include the collection of user charges for water and electric.

Fund Financial Statements

The Stuart Municipal Utilities has one kind of fund:

- Proprietary funds account for the Stuart Municipal Utilities Enterprise Funds. The Stuart Municipal Utilities maintains two Enterprise Funds to provide separate information for the water and electric funds, considered to be major funds of the Stuart Municipal Utilities.
- The required financial statements for proprietary funds include a statement of cash receipts, disbursements and change in cash balances.

Government wide Financial Analysis

As noted earlier, the Stuart Municipal Utilities reports the activities of the funds using the cash basis of accounting, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles (GAAP). The Stuart Municipal Utilities does not report capital assets or depreciation on those assets as would be required by GAAP.

Business Type Activities

The Stuart Municipal Utilities water and electric total cash balance increased by \$73,120 for the year ended June 30, 2007.

<u>Business Type Activities</u>			
June 30, 2007			
	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Operating receipts:			
Charge for service	<u>\$ 532,683</u>	<u>\$1,318,633</u>	<u>\$1,851,316</u>
Operating disbursements:			
Business type activities	<u>\$ 371,803</u>	<u>\$1,232,267</u>	<u>\$1,604,070</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 160,880</u>	<u>\$ 86,366</u>	<u>\$ 247,246</u>
Total non-operating receipts (disbursements):	<u>\$(138,013)</u>	<u>\$ (36,113)</u>	<u>\$ (174,126)</u>
Net change in cash balances	\$ 22,867	\$ 50,253	\$ 73,120
Cash balances beginning of year	<u>391,639</u>	<u>2,397,647</u>	<u>2,789,286</u>
Cash balances end of year	<u>\$ 414,506</u>	<u>\$2,447,900</u>	<u>\$2,862,406</u>

Business Type Activities

June 30, 2006

	<u>Water</u>	<u>Electric</u>	<u>Total</u>
Operating receipts:			
Charge for service	<u>\$ 499,446</u>	<u>\$1,335,709</u>	<u>\$1,835,155</u>
Operating disbursements:			
Business type activities	<u>\$ 325,990</u>	<u>\$1,154,365</u>	<u>\$1,480,355</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	<u>\$ 173,456</u>	<u>\$ 181,344</u>	<u>\$ 354,800</u>
Total non-operating receipts (disbursements):	<u>\$(140,417)</u>	<u>\$ 874,571</u>	<u>\$ 734,154</u>
Net change in cash balances	\$ 33,039	\$1,055,915	\$1,088,954
Cash balances beginning of year	<u>358,600</u>	<u>1,341,732</u>	<u>1,700,332</u>
Cash balances end of year	<u>\$ 391,639</u>	<u>\$2,397,647</u>	<u>\$2,789,286</u>

Budgetary Highlights

In accordance with the Code of Iowa, the Stuart Municipal Utilities annually adopts a budget following the required public notice and hearing for all funds. Although the budget document presents functional disbursements by fund, the legal level of contract is at the aggregated function level, not at the fund or fund type level. The budget may be amended during the year utilizing similar statutorily prescribed procedures (required public notice followed by a public hearing).

Individual Major Business Type Fund Analysis

- Water fund cash balance increased by \$22,867 due to increase of sales.
- Electric fund cash increased by \$50,253 due to increase of sales.

Debt Administration

At year end, the Stuart Municipal Utilities had approximately \$3,690,000 in bonds as compared to \$3,900,000 the last fiscal year.

Economic Factors and Next Year's Budget and Rates

The Stuart Municipal Utility Board considers many factors when setting the 2008 fiscal year budget. The Board is involved in providing water to a new housing project, a portion of this project will continue on through fiscal year 2008.

In addition to the project stated above, other items of importance to the Utility Board of Trustees are return on investments and the cost of employee benefits.

These factors all contributed when adopting the fiscal year 2008 budget. The budget includes all business type activities, including water and electric expenditures. Steps implemented by the Stuart Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2008 fiscal year budget.

Contacting the Stuart Municipal Utilities' Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Stuart Municipal Utilities' finances and to show the Utilities' 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, Iowa 50250.

FINANCIAL STATEMENTS

STUART MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
Year Ended June 30, 2007

Exhibit A

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/programs:			
Business type activities:			
Water	\$ 525,871	\$ 532,683	\$ -
Electric	1,483,620	1,318,633	-
	<u>\$ 2,009,491</u>	<u>\$1,851,316</u>	<u>\$ -</u>
Total business type activities			
General receipts:			
Interest on investments			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			

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

<u>Program Receipts</u> Capital Grants, Contributions, and Restricted Interest	<u>Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets</u> Business Type Activities
\$ -	\$ 6,812
<u>79,138</u>	<u>(85,849)</u>
<u>\$ 79,138</u>	<u>\$ (79,037)</u>
	\$ 107,312
	<u>44,845</u>
	<u>\$ 152,157</u>
	\$ 73,120
	<u>2,789,286</u>
	<u>\$ 2,862,406</u>

STUART MUNICIPAL UTILITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2007

Exhibit B

	Enterprise Fund		Total
	Water	Electric	
OPERATING RECEIPTS:			
Charge for service	\$ 532,683	\$ 1,318,633	\$ 1,851,316
TOTAL OPERATING RECEIPTS	<u>\$ 532,683</u>	<u>\$ 1,318,633</u>	<u>\$ 1,851,316</u>
OPERATING DISBURSEMENTS:			
Business type activities	\$ 371,803	\$ 1,232,267	\$ 1,604,070
TOTAL OPERATING DISBURSEMENTS	<u>\$ 371,803</u>	<u>\$ 1,232,267</u>	<u>\$ 1,604,070</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>\$ 160,880</u>	<u>\$ 86,366</u>	<u>\$ 247,246</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Intergovernmental	\$ -	\$ 79,138	\$ 79,138
Interest on investments	13,107	94,205	107,312
Miscellaneous	2,948	41,897	44,845
Debt service	(154,068)	(251,353)	(405,421)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	<u>\$ (138,013)</u>	<u>\$ (36,113)</u>	<u>\$ (174,126)</u>
EXCESS OF RECEIPTS OVER DISBURSEMENTS	<u>\$ 22,867</u>	<u>\$ 50,253</u>	<u>\$ 73,120</u>
OPERATING TRANSFERS	<u>-</u>	<u>-</u>	<u>-</u>
NET CHANGE IN CASH BALANCES	<u>\$ 22,867</u>	<u>\$ 50,253</u>	<u>\$ 73,120</u>
CASH BALANCES BEGINNING OF YEAR	<u>391,639</u>	<u>2,397,647</u>	<u>2,789,286</u>
CASH BALANCES END OF YEAR	<u><u>\$ 414,506</u></u>	<u><u>\$ 2,447,900</u></u>	<u><u>\$ 2,862,406</u></u>
CASH BASIS FUND BALANCES:			
Reserved for debt service	\$ 20,676	\$ -	\$ 20,676
Reserved for bond reserve funds	277,203	-	277,203
Reserved for improvements	-	12,010	12,010
Reserved for insurance	-	67,999	67,999
Reserved for customer deposits	-	34,558	34,558
Reserved for insufficient checks	-	4,687	4,687
Unreserved	116,627	2,328,646	2,445,273
TOTAL CASH BASIS FUND BALANCES	<u><u>\$ 414,506</u></u>	<u><u>\$ 2,447,900</u></u>	<u><u>\$ 2,862,406</u></u>

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

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. SIGNIFICANT ACCOUNTING POLICIES

The Stuart Municipal Utilities is a governmental subdivision of the State of Iowa located in Adair and Guthrie Counties. The Utilities Board of Trustees is appointed by the Mayor of Stuart and approved by the Stuart City Council.

Reporting Entity:

The financial statements include all funds of the Stuart Municipal Utilities. The Utilities 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 Utilities are such that exclusion would cause the Utilities' 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 Utilities 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 Utilities.

The Stuart Municipal Utilities is a component unit of the City of Stuart, Iowa.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Utilities. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the Utilities' 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 that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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 proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the water system.

The Electric Fund accounts for the operation and maintenance of the electric system.

Basis of Accounting:

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities 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.

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.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information.

Cash and Time Deposits:

The Utilities pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Utilities makes disbursements and investments from the combined cash balance. Time deposits are stated at cost which approximates market. All interest is credited to the operating fund.

Restricted Assets:

The Utilities, based on certain bond covenants, is required to establish and maintain prescribed amounts of resources (consisting of cash and investments) that can be used only to service outstanding debt.

Note 2. DEPOSITS AND INVESTMENTS

The Utilities' deposits at June 30, 2007, were entirely covered by Federal Depository Insurance, 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 members of the pool to insure there will be no loss of public funds.

The Utility is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificate of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Trustees 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 Utilities' investments are categorized to give an indication of the level of risk assumed by the Utilities at year-end. The Utilities' investment at June 30, 2007, consisted of Certificates of Deposits and are not subject to risk categorization.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 3. PENSION AND RETIREMENT BENEFITS

The Utility 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 Utility is required to contribute 5.75% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2007, 2006, and 2005 were \$ 15,528, \$14,605 and \$14,704 respectively, equal to the required contributions for each year.

Note 4. CAPITAL LOAN NOTES

Annual debt service requirements to maturity for capital loan notes and other debt payable are as follows:

<u>Year Ending June 30,</u>	<u>Principal Capital Loan Notes</u>	<u>Interest Capital Loan Notes</u>
2008	\$ 220,000	\$ 184,049
2009	230,000	173,191
2010	370,000	161,587
2011	395,000	144,536
2012	405,000	125,919
2013	435,000	106,426
2014	455,000	85,070
2015	480,000	62,241
2016	<u>700,000</u>	<u>37,800</u>
	<u>\$3,690,000</u>	<u>\$1,080,819</u>

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 4. CAPITAL LOAN NOTES (continued)

The resolutions providing for the issuance of the capital loan notes – Water Revenue and Electric Revenue include the following provisions.

- a. The notes will only be redeemed from the future net earnings of the municipal water utility and the noteholders hold a lien on the future earnings of the funds.
- b. Sufficient monthly transfers shall be made to a separate Sinking Fund for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers shall be made to a Reserve Fund until a specific minimum balance has been accumulated. This fund shall be used solely for paying principal and interest when the sinking fund balance is insufficient.
- d. A separate Improvement Fund for Water Revenue shall be established requiring monthly deposits until a minimum of \$15,000 is accumulated. This fund is restricted for the purpose of paying for extraordinary maintenance and repairs and capital improvements to the system or for note and interest payments which the other funds might be unable to make.

Note 5. COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utilities' approximate liability for earned vacation payments payable to employees at June 30, 2007, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$11,440</u>

This liability has been computed based on rates of pay as of June 30, 2007. Sick leave is payable when used. The Utility allows employees to carry over a limited number of unused sick leave hours for subsequent use but does not pay employees for unused hours held upon separation from service.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2007

Note 6. CONTINGENCY

In January, 1993, the Utilities received notice from the Iowa Department of Economic Development of disallowance of CDBG grant funds totaling \$86,531. The Utilities subsequently requested forgiveness of the disallowance. A final decision is pending.

Note 7. RISK MANAGEMENT

Stuart Municipal Utilities 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 in the past three fiscal years.

Note 8. MAJOR CUSTOMER

A material part of the Utility's water charges for services revenue is from one major customer. During the year ended June 30, 2007, this customer accounted for approximately 27% of the Utility's water revenue.

A material part of the Utility's electric charges for services revenue is from five major customers. The loss of any one of these customers may not have a materially adverse effect on the Utility, however, the loss of any combination of these major customers could have a materially adverse effect on the Utility. During the year ended June 30, 2007, these customers accounted for approximately 16% of Utility's electric revenue.

Note 9. SUBSEQUENT EVENTS

In November 2007 the Utilities approved to take additional action for the issuance of Water Revenue Capital Loan Notes not to exceed \$2,100,000.

REQUIRED SUPPLEMENTARY INFORMATION

STUART MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET
 Year Ended June 30, 2007

	Actual	Less Funds not Required to be Budgeted
RECEIPTS:		
Use of money and property	\$ 107,312	\$ -
Intergovernmental	79,138	-
Charges for services	1,851,316	-
Miscellaneous	44,845	-
Total receipts	\$ 2,082,611	\$ -
DISBURSEMENTS:		
Business type activities:		
Electric	\$ 1,483,620	\$ -
Water	525,871	-
Total disbursements	\$ 2,009,491	\$ -
EXCESS OF RECEIPTS OVER DISBURSEMENTS	\$ 73,120	\$ -
OTHER FINANCING SOURCES:		
Transfers	-	-
EXCESS OF RECEIPTS AND OTHER FINANCING SOURCES OVER DISBURSEMENTS	\$ 73,120	\$ -
BALANCE, beginning of year	2,789,286	-
BALANCE, end of year	\$ 2,862,406	\$ -

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

Net	Budgeted Amounts		Final To Net
	Original	Final	
\$ 107,312	\$ -	\$ -	\$ 107,312
79,138	-	-	79,138
1,851,316	1,873,941	1,873,941	(22,625)
44,845	-	-	44,845
<u>\$ 2,082,611</u>	<u>\$ 1,873,941</u>	<u>\$ 1,873,941</u>	<u>\$ 208,670</u>
\$ 1,483,620	\$ 1,206,737	\$ 1,462,196	\$ (21,424)
525,871	574,916	715,873	190,002
<u>\$ 2,009,491</u>	<u>\$ 1,781,653</u>	<u>\$ 2,178,069</u>	<u>\$ 168,578</u>
\$ 73,120	\$ 92,288	\$ (304,128)	\$ 377,248
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ 73,120	<u>\$ 92,288</u>	<u>\$ (304,128)</u>	<u>\$ 377,248</u>
<u>2,789,286</u>			
<u>\$ 2,862,406</u>			

STUART MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2007

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

The Utilities' budget is submitted with the City of Stuart's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. 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, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Utilities' budget is included in the business type activities function. During the year, two budget amendments for the Utilities increased budgeted disbursements by \$128,000 and \$268,416. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted in the business type activities.

OTHER SUPPLEMENTARY INFORMATION

STUART MUNICIPAL UTILITIES
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2007

			Schedule 1
	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
OBLIGATION			
Electric Revenue Capital Loan Notes	3-1-2000	5.15-6.15	\$ 1,700,000
Water Revenue Capital Loan Notes	5-1-2001	4.10-5.40	\$ 1,830,000
Electric Revenue Capital Loan Notes	10-1-2003	2.05-4.45	\$ 385,000
Electric Revenue Refunding Capital Loan Notes	10-15-2005	3.55-4.05	\$ 880,000

See accompanying independent auditor's report.

<u>Balance Beginning Of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 1,180,000	\$ -	\$ 105,000	\$ 1,075,000	\$ 69,483	\$ -
1,515,000	-	75,000	1,440,000	78,668	-
325,000	-	30,000	295,000	12,515	-
<u>880,000</u>	<u>-</u>	<u>-</u>	<u>880,000</u>	<u>33,555</u>	<u>-</u>
<u><u>\$ 3,900,000</u></u>	<u><u>\$ -</u></u>	<u><u>\$ 210,000</u></u>	<u><u>\$ 3,690,000</u></u>	<u><u>\$ 194,221</u></u>	<u><u>\$ -</u></u>

STUART MUNICIPAL UTILITIES
NOTE MATURITIES
Year Ended June 30, 2007

Schedule 2

<u>Year Ending June 30,</u>	CAPITAL LOAN NOTES			
	Electric Revenue		Water Revenue	
	Issued March 1, 2000		Issued May 1, 2001	
	Interest Rates	Amount	Interest Rates	Amount
2008	5.65%	\$ 110,000	4.70%	\$ 75,000
2009	5.70%	115,000	4.80%	80,000
2010	5.80%	120,000	4.90%	85,000
2011	5.85%	130,000	5.00%	90,000
2012	5.90%	135,000	5.10%	95,000
2013	6.00%	145,000	5.20%	100,000
2014	6.10%	155,000	5.25%	105,000
2015	6.15%	165,000	5.30%	110,000
2016		-	5.40%	700,000
		<u>\$ 1,075,000</u>		<u>\$ 1,440,000</u>

See accompanying independent auditor's report

CAPITAL LOAN NOTES

<u>Electric Revenue</u>		<u>Electric Revenue</u>		<u>Total Capital Loan Notes</u>
<u>Issued October 1, 2003</u>		<u>Issued October 15, 2005</u>		
<u>Interest Rates</u>	<u>Amount</u>	<u>Interest Rates</u>	<u>Amount</u>	
3.20%	\$ 35,000		\$ -	\$ 220,000
3.45%	35,000		-	230,000
3.75%	35,000	3.55%	130,000	370,000
4.00%	35,000	3.65%	140,000	395,000
4.10%	35,000	3.75%	140,000	405,000
4.20%	40,000	3.85%	150,000	435,000
4.35%	40,000	3.95%	155,000	455,000
4.45%	40,000	4.05%	165,000	480,000
	-		-	700,000
	<u>\$ 295,000</u>		<u>\$ 880,000</u>	<u>\$ 3,690,000</u>

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 Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

We have audited the financial statements of the business-type activities of the Stuart Municipal Utilities, as of and for the year ended June 30, 2007, which collectively comprise the Stuart Municipal Utilities' basic financial statements and have issued our report thereon dated November 9, 2007. 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 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 Stuart Municipal Utilities' internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Stuart Municipal Utilities' internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Stuart Municipal Utilities' 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.

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 Stuart Municipal Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is

more than a remote likelihood a misstatement of the Stuart Municipal Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Stuart Municipal Utilities' internal control. We consider the deficiencies 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 that a material misstatement of the financial statements will not be prevented or detected by the Stuart Municipal Utilities' 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, we believe none of the significant deficiencies described above is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stuart Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, 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 instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' 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 Utilities. 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.

Stuart Municipal Utilities' response to the findings identified in our audit is described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Stuart Municipal Utilities' response and, accordingly, we express no opinion on it.

This report, a public record by law, is intended solely for the information and use of the management, the audit committee, Board of Trustees, and other parties to whom the Stuart Municipal Utilities may report and is not intended to be and should not be used by anyone other than these specified parties.

Drapen, Smidgrass, Mickelson + Co., P.C.

November 9, 2007

STUART MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

SIGNIFICANT DEFICIENCIES:

2007-A Segregation of Duties – One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

Conclusion – Response acknowledged. Stuart Municipal Utilities should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

OTHER FINDINGS RELATED TO STATUTORY REPORTING:

2007-1 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted in the business type activities functions.

2007-2 Questionable Disbursements – We noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

2007-3 Travel Expense – No disbursements of the Stuart Municipal Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

2007-4 Business Transactions – No business transactions between the Stuart Municipal Utilities and Utilities’ officials or employees were noted.

2007-5 Bond Coverage – Surety bond coverage of Stuart Municipal Utilities 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.

STUART MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended June 30, 2007

- 2007-6 Trustee Minutes – No transactions were found that we believe should have been approved in the Trustee minutes but were not.
- 2007-7 Revenue Bonds – The Utilities has complied with the provisions of the revenue bond indentures.
- 2007-8 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and Stuart Municipal Utilities' investment policy were noted.