CITY OF STUART
SEWER FUNDS

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

Year Ended June 30, 2008

CITY OF STUART
SEWER FUNDS
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CITY OF STUART

OFFICIALS

NAME	TITLE	TERM EXPIRES
	(Before January 2008)	
Cheryl Marks	Mayor	January 1, 2010
Brian Belden	Council Member	January 1, 2010
Jeff Sherman	Council Member	January 1, 2010
Mick Askren	Council Member	January 1, 2008
Dick Cook	Council Member	January 1, 2008
Neal Crawford	Council Member	January 1, 2010
Ashraf Ashour	City Administrator	
Bill Bump	City Attorney	
	(After January 2008)	
Cheryl Marks	Mayor	January 1, 2010
Brian Belden	Council Member	January 1, 2010
Jeff Sherman	Council Member	January 1, 2010
Cory Wadell	Council Member	January 1, 2012
James O'Keeffe	Counncil Member	January 1, 2012
Neal Crawford	Council Member	January 1, 2010
Ashraf Ashour	City Administrator	
Bill Bump	City Attorney	

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INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements of the business type activities of the Sewer Enterprise Funds of the City of Stuart, Iowa, as of and for the year ended June 30, 2008. These financial statements are the responsibility of the City's 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 Sewer Enterprise Funds of the City of Stuart, Iowa, as of June 30, 2008, 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 October 23, 2008, on our consideration of the Sewer Enterprise Funds of the City of Stuart, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants 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 7 and 16 through 17 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 Sewer Enterprise Funds of the City of Stuart, Iowa's basic 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 aforementioned financial statements taken as a whole.

Draper, Smedgrasso, Mickelsen + Co., P.C.

October 23, 2008

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stuart (Sewer Fund) 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, 2008. We encourage readers to consider this information in conjunction with the Stuart City of Stuart (Sewer Fund) financial statements, which follow.

Financial Highlights

The City of Stuart (Sewer Funds) total sewer fund balance decreased by $13,879 from the previous fiscal year. This decrease is due to repairs and maintenance.

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 City of Stuart (Sewer Funds) financial activities.

The City of Stuart (Sewer Funds) financial statements consist of a statement of activities and changes in cash balances. The statements provided information about the activities of the Sewer as a whole and present an overall view of the Sewer finances.

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

Required supplementary information provided detailed information about the annual budget.

Basis of Accounting

The City of Stuart (Sewer Funds) maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City of Stuart (Sewer Funds) 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 City of Stuart (Sewer Funds) 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 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 City of Stuart (Sewer Funds) Financial Activities

The statement of activities and changes in cash balance presents information showing how the City of Stuart (Sewer Funds) cash balances changed during the most recent fiscal year.

The City of Stuart (Sewer Funds) financial activities are displayed in the statement of activities and change in cash balance.

The business type activities of the City of Stuart (Sewer Funds) include the collection of user charges for Sewer.

Fund Financial Statements

The City of Stuart (Sewer Funds) has one kind of fund:

- Proprietary funds account for the City of Stuart (Sewer Funds) Enterprise Funds. The City of Stuart (Sewer Funds) maintains one Enterprise Fund to provide separate information for the Sewer Funds, considered to be major funds of the City of Stuart (Sewer Funds).

- 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 City of Stuart (Sewer Funds) 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 City of Stuart (Sewer Funds) does not report capital assets or depreciation on those assets as would be required by GAAP.

Business Type Activities

The City of Stuart (Sewer Funds) total cash balance decreased by $13,879 for the year ended June 30, 2008.

Business Type Activities

Sewer	6-30-08	6-30-07
Operating receipts:		
Charge for service	$ 173,957	$ 170,490
Operating disbursements:		
Business type activities	$ 140,608	$ 230,978
Excess (deficiency) of operating receipts over/(under) operating disbursements	$ 33,349	$ (60,488)
Total non-operating receipts (disbursements):	$ (47,228)	$ 91,244
Net change in cash balances	$ (13,879)	$ 30,756
Cash balances beginning of year	328,824	298,068
Cash balances end of year	$ 314,945	$ 328,824

The decrease in the Sewer Fund was due repairs and maintenance.

Budgetary Highlights

In accordance with the Code of Iowa, the City of Stuart (Sewer Funds) 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

Sewer fund balance decreased by $13,879 due to repairs and maintenance.

Debt Administration

At year end, the City of Stuart (Sewer Funds) had approximately $130,000 in bonds as compared to $180,000 the last fiscal year.

Economic Factors and Next Year's Budget and Rates

The City Council considers many factors when setting the 2009 fiscal year budget. Items of importance to the City Council are return on investments, the cost of employee benefits and improvement to the existing sewer system.

These factors all contributed when adopting the fiscal year 2009 budget. The budget includes all business type activities, including sewer expenditures, steps implemented by the City Council, 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 2009 fiscal year budget.

Contacting the City of Stuart Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City of Stuart (Sewer Funds) 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, Iowa 50250.

FINANCIAL STATEMENTS

CITY OF STUART - SEWER FUNDS
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
Year Ended June 30, 2008

Exhibit A

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/programs:			
Business type activities:			
Sewer	$ 198,281	$ 173,957	$ -
Total business type activities	$ 198,281	$ 173,957	$ -
General receipts:			
Interest on investments			
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.

Program Receipts	Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets
Capital Grants, Contributions, and Restricted Interest	Business Type Activities
$ -	$ (24,324)
$ -	$ (24,324)
	$ 10,445
	$ 10,445
	$ (13,879)
	328,824
	$ 314,945

CITY OF STUART - SEWER FUNDS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2008

Exhibit B

	Enterprise Fund
OPERATING RECEIPTS:	
Charge for service	$ 173,957
TOTAL OPERATING RECEIPTS	$ 173,957
OPERATING DISBURSEMENTS:	
Business type activities	$ 140,608
TOTAL OPERATING DISBURSEMENTS	$ 140,608
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	$ 33,349
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Interest on investments	$ 10,445
Debt service	(57,673)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	$ (47,228)
DEFICIENCY OF RECEIPTS UNDER DISBURSEMENTS	$ (13,879)
OPERATING TRANSFERS	-
NET CHANGE IN CASH BALANCES	$ (13,879)
CASH BALANCES BEGINNING OF YEAR	328,824
CASH BALANCES END OF YEAR	$ 314,945
CASH BASIS FUND BALANCES:	
Reserved for debt service	$ 90,084
Reserved for bond reserve funds	51,000
Reserved for improvements	96,922
Unreserved	76,939
TOTAL CASH BASIS FUND BALANCES	$ 314,945

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

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2008

Note 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 nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

Reporting Entity:

The financial statements include only the Sewer Funds of the City of Stuart.

Basis of Presentation:

Government-wide Financial Statements – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the Sewer Enterprise Funds of the City of Stuart, Iowa. 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 Sewer Enterprise Funds' 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.

Note 1. SUMMARY OF 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 Sewer Enterprise Funds reports the following major proprietary funds:

The Sewer Fund accounts for the operation and maintenance of the sewer system.

Basis of Accounting:

The Sewer Enterprise Fund maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Sewer Enterprise Fund 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.

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The budget is prepared based on functions of which the Sewer Enterprise Fund is part of the Business Type Activities Function. The Function budget total for the year was exceeded.

Cash and Time Deposits:

The Sewer Enterprise Fund pools cash resources of most funds in a combined bank account to facilitate the management of cash. The Sewer Enterprise Fund 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 Sewer Enterprise Fund, 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 Sewer Funds' deposits at June 30, 2008, 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 depositories to insure there will be no loss of public funds.

The City of Stuart 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 federal insured depository institutions approved by the Council and the Treasurer of the State of Iowa; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

Note 2. DEPOSITS AND INVESTMENTS (continued)

The City of Stuart's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments at June 30, 2008, consisted of certificates of deposit and are not subject to risk categorization.

Note 3. 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.

Plan members are required to contribute 3.90% of their annual salary and the City is required to contribute 6.05% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution for Sewer Funds to IPERS for the year ended June 30, 2008, 2007 and 2006 was $2,154, $1,805, and $1,792 respectively, equal to the required contributions for each year.

Note 4. LOANS NOTES PAYABLE

Annual debt service requirements to maturity for Sewer Revenue capital loan notes payable are as follows:

Year Ending June 30,	Capital Loan Notes	
	Principal	Interest
2009	$ 35,000	$ 5,298
2010	30,000	3,898
2011	30,000	2,683
2012	35,000	1,453
	$ 130,000	$ 13,332

Note 4. LOAN NOTES PAYABLE (continued)

On September 11, 2006, the City entered into a note agreement with a financial institution for the issuance of sewer revenue capital loan notes for the refinancing of the 1994 sewer capital loan notes and for additional improvements to the sewer system in the amount of $230,000 and the notes have interest rates of 3.90% to 4.15%. Interest payments are due September 1 and March 1. Principal payments are due March 1. The balance at June 30, 2008, is $130,000.

On July 11, 2006, the City entered into a note agreement with a financial institution for the purchase of equipment for $19,439 at 5.50% interest. Interest and principal payments are due July 11 beginning July 11, 2007. The balance at June 30, 2008, is $13,302. Annual payments are as follows:

Year Ending June 30,	Principal	Interest
2009	$ 6,472	$ 734
2010	6,830	376
	$ 13,302	$ 1,110

Note 5. COMPENSATED ABSENCES

City 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 City until used or paid. The City's approximate liability for earned vacation payments payable to Sewer Fund employees at June 30, 2008, is as follows:

Type of Benefit	Amount
Vacation	$ 926

This liability has been computed based on rates of pay as of June 30, 2008. Sick leave is payable when used. The City 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.

Note 6. RISK MANAGEMENT

The City of Stuart is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. Settled claims from these risks did not exceed commercial insurance coverage in the past three fiscal years.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STUART
SEWER FUNDS
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS)
Year Ended June 30, 2008

	Actual	Less Funds not Required to be Budgeted
RECEIPTS:		
Use of money and property	$ 10,445	$ -
Charges for services	173,957	-
Total receipts	$ 184,402	$ -
DISBURSEMENTS:		
Home and Community Environment Program	$ 198,281	$ -
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	$ (13,879)	$ -
OTHER FINANCING SOURCES, NET	-	-
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	$ (13,879)	$ -
BALANCE, beginning of year	328,824	-
BALANCE, end of year	$ 314,945	$ -

The Notes to Financial Statements are an integral part of these financial statements.

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final To Net
$ 10,445	$ -	$ -	$ 10,445
173,957	183,000	233,000	(59,043)
$ 184,402	$ 183,000	$ 233,000	$ (48,598)
$ 198,281	$ 170,000	$ 305,000	$ 106,719
$ (13,879)	$ 13,000	$ (72,000)	$ 58,121
-	-	-	-
$ (13,879)	$ 13,000	$ (72,000)	$ 58,121
328,824			
$ 314,945			

CITY OF STUART
SEWER FUNDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2008

In accordance with the Code of Iowa, the City Council 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.

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 Sewer Enterprise Fund budget is included in the business type activities function. During the year, one budget amendment for the Sewer Fund increased budgeted disbursements by $135,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the business type activities.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STUART
SEWER FUNDS
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2008

Schedule 1

Obligation	Date of Issue	Interest Rate	Amount Originally Issued
Sewer Revenue Capital Loan Notes	September 11, 2006	3.95-4.15%	$ 230,000
Other debt:			
Equipment note	July 11, 2006	5.5%	$ 19,439

See accompanying independent auditor's report.

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 180,000	$ -	$ 50,000	$ 130,000	$ 7,273	$ -
$ 19,439	$ -	$ 6,137	$ 13,302	$ 1,069	$ -

CITY OF STUART
SEWER FUNDS
NOTE MATURITIES
Year Ended June 30, 2008

Schedule 2

Note Maturities

Year Ending June 30,	Capital Loan Notes - Sewer Revenue Sewer Issued September 11, 2006 Interest Rates	Amount
2009	4.00%	$ 35,000
2010	4.05%	30,000
2011	4.10%	30,000
2012	4.15%	35,000
		$ 130,000

Year Ending June 30,	Other debt - Equipment Note Sewer Issued July 11, 2006 Interest Rates	Amount
2009	5.50%	$ 6,472
2010	5.50%	6,830
		$ 13,302

See accompanying Independent Auditors' Report

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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
City of Stuart, Iowa – Sewer Fund
Stuart, Iowa

We have audited the financial statements of the business-type activities of Sewer Enterprise Fund of the City of Stuart, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the Sewer Enterprise Fund of the City of Stuart, Iowa's basic financial statements and have issued our report thereon dated October 23, 2008. 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 Sewer Enterprise Fund of the City of Stuart, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the Sewer Enterprise Fund of the City of Stuart, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Sewer Enterprise Fund of the City of Stuart, Iowa'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.

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 Sewer Enterprise Fund of the City of Stuart, Iowa's 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 Sewer Enterprise Fund of the City of Stuart, Iowa's financial statements that is more than inconsequential will not be prevented or detected by the Sewer Enterprise Fund of the City of Stuart, Iowa's 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 Sewer Enterprise Fund of the City of Stuart, Iowa'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, 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 Sewer Enterprise Fund of the City of Stuart, Iowa's 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 no 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 Sewer Enterprise Fund's operations for the year ended June 30, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Sewer Enterprise Fund. 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.

Sewer Enterprise Fund of the City of Stuart, Iowa's response to the findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. We did not audit Sewer Enterprise Fund of the City of Stuart, Iowa's 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, City Council, and other parties to whom the Sewer Enterprise Fund of the City of Stuart, Iowa, may report and is not intended to be and should not be used by anyone other than these specified parties.

Draper, Smedgrasso, Mickelson + Co., P.C.

October 23, 2008

CITY OF STUART
SEWER FUNDS
SCHEDULE OF FINDINGS
Year Ended June 30, 2008

SIGNIFICANT DEFICIENCIES

2008-A Segregation of Duties – A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Sewer Enterprise Funds of the City of Stuart, Iowa.

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

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

Conclusion – Response accepted.

OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2008-1 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amounts budgeted in the business type activities functions. Chapter 384.20 of the Code of Iowa states in part, "Public monies may not be expended or encumbered except under an annual or continuing appropriation."

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

Response – We will consider this.

Conclusion – Response acknowledged.

2008-2 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2008-3 Travel Expense – No disbursements of the Sewer Enterprise Funds of the City of Stuart, Iowa's money for travel expenses of spouses of Sewer Enterprise Funds of the City of Stuart, Iowa's officials or employees were noted.

CITY OF STUART
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2008-4 Business Transactions – We noted no business transactions between the Sewer Enterprise Funds of the City of Stuart, Iowa and the Sewer Enterprise Funds of the City of Stuart, Iowa's officials or employees.

2008-5 Bond Coverage – Surety bond coverage of the Sewer Enterprise Funds of the City of Stuart, Iowa's officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

2008-6 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

2008-7 Revenue Bonds – The Sewer Enterprise Funds of the City of Stuart, Iowa has complied with the provisions of the revenue bond indentures.

2007-8 Deposits and Investments – The Sewer Enterprise Funds of the City of Stuart, Iowa has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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