

CITY OF STUART, IOWA

INDEPENDENT AUDITOR'S REPORT
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2010

CITY OF STUART, IOWA
TABLE OF CONTENTS

		<u>Page</u>
OFFICIALS		1
INDEPENDENT AUDITOR'S REPORT		2-3
MANAGEMENT'S DISCUSSION AND ANALYSIS		4-9
BASIC FINANCIAL STATEMENTS:	<u>Exhibit</u>	
Government-wide Financial Statement:		
Statement of Activities and Net Assets – Cash Basis	A	10
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	11
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C	12
Notes to Financial Statements		13-20
REQUIRED SUPPLEMENTARY INFORMATION:		
Budgetary Comparison Schedule of Receipts, Disbursement and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds		21
Notes to Required Supplementary Information – Budgetary Reporting		22
OTHER SUPPLEMENTARY INFORMATION:	<u>Schedule</u>	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds	1	23-24
Schedule of Indebtedness	2	25
Bond and Other Debt Maturities	3	26
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>		27-28
SCHEDULE OF FINDINGS		29-30

CITY OF STUART, IOWA
OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dick Cook	Mayor	January 2014
Bryan Beldon	Mayor Pro tem	January 2014
Wade Chafa	Council Member	January 2012
James O'Keeffe	Council Member	January 2012
Neal Crawford	Council Member	January 2014
Matt Funk	Council Member	January 2014
Ashraf M. Ashour	Administrator/Clerk/ Treasurer	Indefinite
William Bump	City Attorney	Indefinite

INDEPENDENT AUDITOR'S REPORT

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

We have audited the accompanying financial statements, of the governmental activities, the business type activities, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of City of Stuart, Iowa's officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. 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, 2009.

In our opinion, except for the effect 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, 2009, as discussed in the preceding paragraph, based on our audit, 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, the aggregate discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa, as of June 30, 2010, 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.

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

In accordance with Government Auditing Standards, we have also issued our report dated January 25, 2011, on our consideration of City of Stuart, Iowa'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 4 through 9 and 21 through 22 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 conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stuart, Iowa'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, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Drapen, Smidgrass, Mikkelsen & Co., P.C.

January 25, 2011

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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2010 Financial Highlights

The cash basis net assets of the City's governmental activities decreased approximately \$3,740,715 due primarily to use of reserve and bond proceeds received in the prior year.

The cash basis net assets of the City's business type activities increased approximately \$65,889 due to increase of rate.

Using This Annual Report

The annual report consists of a series of financial statements as well as 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 Statements 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 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 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 cash basis accounting.

Reporting the City as a Whole

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 fee 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 the funds and the balances at year-end that are available for spending. The government 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 Funds. 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 decreased from a year ago, decreasing from \$5,613,868 to \$1,873,153. 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 <u>June 30, 2010</u>
Receipts and transfers:	
Program receipts:	
Charges for services	\$ 258,872
Operating grants, contributions and restricted interest	199,158
General receipts:	
Property tax	779,163
Tax incremental financing	480,833
Other city tax	201,258
Licenses and permits	2,614
Use of money and property	7,239
Miscellaneous	<u>223,904</u>
Total receipts	<u>\$ 2,153,041</u>
Disbursements:	
Public safety	\$ 515,421
Public works	314,605
Culture and recreation	80,590
Community and economic development	529,641
General government	204,667
Debt service	713,671
Capital projects	<u>3,535,162</u>
Total disbursements	<u>\$ 5,893,756</u>
Increase in cash basis net assets	\$(3,740,715)
Cash basis net assets beginning of fiscal year	<u>5,613,868</u>
Cash basis net assets end of fiscal year	<u>\$ 1,873,153</u>

The decrease in cash basis net assets of the City's governmental activities was due to capital projects not completely finished during the year before.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended <u>June 30, 2010</u>
OPERATING RECEIPTS:	
Charges for service	\$ 212,982
Total operating receipts	<u>\$ 212,982</u>
OPERATING DISBURSEMENTS:	
Business type activities	<u>\$ 1,914,977</u>
Total operating disbursements	<u>\$ 1,914,977</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$(1,701,995)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 1,068,201
Uses of money and property	4,272
Miscellaneous	<u>2,611</u>
Total non-operating receipts (disbursements)	<u>\$ 1,075,084</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (626,911)</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ 692,800
Operating transfers in	---
Operating transfers out	<u>---</u>
Total other financing sources (uses)	<u>\$ 692,800</u>
NET CHANGES IN CASH BALANCES	\$ 65,889
CASH BALANCES, BEGINNING OF YEAR	<u>269,403</u>
CASH BALANCES, END OF YEAR	<u>\$ 335,292</u>

Total business type activity cash balances increased by \$65,889, from a year ago, increasing from \$269,403 to \$335,292. The increase was due to increase sewer rate.

Individual Major Governmental Fund Analysis

As the City of Stuart completed the year, its governmental funds reported a combined fund balance of \$1,873,153, a decrease of more than \$3,740,715 below last year's total of \$5,613,868. 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 \$419,427 to \$451,063.

The Special Revenue, Road Use Tax Fund cash balance decreased from \$212,035 to \$194,223, during the fiscal year.

The Special Revenue, Employee Benefits Fund cash balance increased \$25,395 over the prior fiscal year.

The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$56,323 to \$82,993 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.

Individual Major Business Type Fund Analysis

The Sewer Fund cash balance increased \$65,889 to a year-end balance of \$335,292. The increase was due to increase of sewer rate and grants to help fund treatment plant improvements.

Budgetary Highlights

Over the course of the year, the City amended its budget two times. The amendments were approved on July 13, 2009 and May 11, 2010 and resulted in an increase in operating disbursements related to six functions of approximately \$8,091,831 for an anticipated city hall project, and an increase in disbursements using reserves. The City general obligation notes in the prior year and reserve funds to absorb these additional costs.

The City's receipts were \$2,076,289 less than budgeted.

Total disbursements were \$2,371,946 less than budgeted disbursements.

Debt Administration

At June 30, 2010, the City had \$7,929,845 in notes and other long-term debt outstanding, compared to \$7,965,808 at the end of last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year End	
	<u>2010</u>	June 30, <u>2009</u>
General obligation notes	\$7,115,745	\$7,855,978
Revenue notes	785,600	95,000
Bank loans	<u>28,500</u>	<u>14,830</u>
Total	<u>\$7,929,845</u>	<u>\$7,965,808</u>

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 (annual appropriation debt) of \$1,264,240 is significantly below its constitutional debt limit of \$3,893,000.

Economic Factors and Next Year's Budget and Rates

The City Council considers many factors when setting the 2011 fiscal year budget.

Items of importance to the City Council are return on investments, the cost of employee benefits and improvements to the existing sewer system.

These factors all contributed when adopting the fiscal year 2011 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 2011 fiscal year budget.

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 information, contact Ashraf Ashour, City Administrator, 119 E. Front Street, Stuart, Iowa 50250.

FINANCIAL STATEMENTS

CITY OF STUART, IOWA
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 As of and for the Year Ended June 30, 2010

Exhibit A

FUNCTIONS/PROGRAMS:	<u>Disbursements</u>	PROGRAM RECEIPTS		
		Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 515,421	\$ 147,513	\$ 23,456	\$ -
Public works	314,605	80,877	158,808	-
Health and social services	-	-	-	-
Culture and recreation	80,589	30,482	16,894	-
Community/economic development	529,641	-	-	-
General government	204,667	-	-	-
Debt service	713,671	-	-	-
Capital projects	3,535,162	-	-	-
Total governmental activities	<u>\$ 5,893,756</u>	<u>\$ 258,872</u>	<u>\$ 199,158</u>	<u>\$ -</u>
Business type activities:				
Sewer	\$ 1,914,977	\$ 212,982	\$ -	\$ 1,068,201
Total business type activities	<u>\$ 1,914,977</u>	<u>\$ 212,982</u>	<u>\$ -</u>	<u>\$ 1,068,201</u>
TOTAL PRIMARY GOVERNMENT	\$ 7,808,733	\$ 471,854	\$ 199,158	\$ 1,068,201
COMPONENT UNIT:				
Utilities	\$ 2,838,772	\$ 2,219,649	\$ -	\$ 300,000
GENERAL RECEIPTS:				
Property taxes levied for:				
General purposes				
Tax incremental financing				
Debt service				
Hotel/motel sales tax				
Local option sales tax				
Interest on investments				
Bond/note proceeds				
Miscellaneous				
Sale of assets				
Transfers				
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				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
TOTAL CASH BASIS NET ASSETS				

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

NET (DISBURSEMENTS) RECEIPTS AND CHANGES

<u>Governmental Activities</u>	<u>Business Type Activities</u>	<u>Total</u>	<u>Component Unit Water Works</u>
\$ (344,452)	\$ -	\$ (344,452)	\$ -
(74,920)	-	(74,920)	-
-	-	-	-
(33,213)	-	(33,213)	-
(529,641)	-	(529,641)	-
(204,667)	-	(204,667)	-
(713,671)	-	(713,671)	-
(3,535,162)	-	(3,535,162)	-
<u>\$ (5,435,726)</u>	<u>\$ -</u>	<u>\$ (5,435,726)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (633,794)</u>	<u>\$ (633,794)</u>	<u>\$ -</u>
<u>\$ -</u>	<u>\$ (633,794)</u>	<u>\$ (633,794)</u>	<u>\$ -</u>
<u>\$ (5,435,726)</u>	<u>\$ (633,794)</u>	<u>\$ (6,069,520)</u>	<u>\$ -</u>
			<u>\$ (319,123)</u>
\$ 479,340	\$ -	\$ 479,340	\$ -
480,833	-	480,833	-
299,823	-	299,823	-
81,939	-	81,939	-
119,319	-	119,319	-
7,238	4,272	11,510	79,793
-	692,800	692,800	-
224,897	2,611	227,508	18,034
1,622	-	1,622	-
-	-	-	-
<u>\$ 1,695,011</u>	<u>\$ 699,683</u>	<u>\$ 2,394,694</u>	<u>\$ 97,827</u>
<u>\$ (3,740,715)</u>	<u>\$ 65,889</u>	<u>\$ (3,674,826)</u>	<u>\$ (221,296)</u>
<u>5,613,868</u>	<u>269,403</u>	<u>5,883,271</u>	<u>3,314,200</u>
<u>\$ 1,873,153</u>	<u>\$ 335,292</u>	<u>\$ 2,208,445</u>	<u>\$ 3,092,904</u>
\$ 64,946	\$ -	\$ 64,946	
194,223	-	194,223	
82,993	-	82,993	
195,674	79,387	275,061	
884,254	98,875	983,129	
451,063	157,030	608,093	
<u>\$ 1,873,153</u>	<u>\$ 335,292</u>	<u>\$ 2,208,445</u>	

CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS

As of and for the Year Ended June 30, 2010

Exhibit B

		SPECIAL REVENUE	
	General	Road Use Tax	Employee Benefits
RECEIPTS:			
Property taxes	\$ 387,129	\$ -	\$ 122,405
Tax increment financing collections	-	-	-
Other city taxes	201,258	-	-
Licenses and permits	2,614	-	-
Use of money and property	2,865	940	592
Intergovernmental	4,010	158,808	-
Charges for service	256,257	-	-
Special assessments	-	-	-
Miscellaneous	115,538	13,703	1,748
Total receipts	\$ 969,671	\$ 173,451	\$ 124,745
DISBURSEMENTS:			
Operating:			
Public safety	\$ 456,342	\$ -	\$ 58,404
Public works	146,552	130,992	37,061
Health and social services	-	-	-
Culture and recreation	76,114	-	4,475
Community/economic development	-	-	-
General government	170,257	-	34,410
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 849,265	\$ 130,992	\$ 134,350
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 120,406	\$ 42,459	\$ (9,605)
OTHER FINANCING SOURCES (USES):			
Sale of property	\$ 1,622	\$ -	\$ -
Bond proceeds	-	-	-
Operating transfers in	19,876	-	35,000
Operating transfers out	(110,268)	(60,271)	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ (88,770)	\$ (60,271)	\$ 35,000
NET CHANGE IN CASH BALANCES	\$ 31,636	\$ (17,812)	\$ 25,395
CASH BALANCES, BEGINNING OF YEAR	419,427	212,035	56,957
CASH BALANCES, END OF YEAR	\$ 451,063	\$ 194,223	\$ 82,352
CASH BASIS FUND BALANCES:			
Reserved:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	451,063	-	-
Special revenue funds	-	194,223	82,352
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 451,063	\$ 194,223	\$ 82,352

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

SPECIAL REVENUE

Urban
Renewal Tax
Increment

Debt
Service

Other
Nonmajor
Governmental
Funds

Total

\$ -	\$ 291,479	\$ 10,157	\$ 811,170
480,833	-	-	480,833
-	-	-	201,258
-	-	-	2,614
210	578	2,054	7,239
-	-	-	162,818
-	-	-	256,257
-	8,344	-	8,344
-	-	89,897	220,886
<u>\$ 481,043</u>	<u>\$ 300,401</u>	<u>\$ 102,108</u>	<u>\$ 2,151,419</u>

\$ -	\$ -	\$ 675	\$ 515,421
-	-	-	314,605
-	-	-	-
-	-	-	80,589
529,641	-	-	529,641
-	-	-	204,667
-	713,671	-	713,671
-	-	3,535,162	3,535,162
<u>\$ 529,641</u>	<u>\$ 713,671</u>	<u>\$ 3,535,837</u>	<u>\$ 5,893,756</u>

<u>\$ (48,598)</u>	<u>\$ (413,270)</u>	<u>\$ (3,433,729)</u>	<u>\$ (3,742,337)</u>
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\$ -	\$ -	\$ -	\$ 1,622
-	-	-	-
75,268	60,271	-	190,415
-	(8,876)	(11,000)	(190,415)

<u>\$ 75,268</u>	<u>\$ 51,395</u>	<u>\$ (11,000)</u>	<u>\$ 1,622</u>
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\$ 26,670	\$ (361,875)	\$ (3,444,729)	\$ (3,740,715)
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<u>56,323</u>	<u>557,549</u>	<u>4,311,577</u>	<u>5,613,868</u>
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<u>\$ 82,993</u>	<u>\$ 195,674</u>	<u>\$ 866,848</u>	<u>\$ 1,873,153</u>
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\$ -	\$ 195,674	\$ -	\$ 195,674
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-	-	-	451,063
82,993	-	34,952	394,520
-	-	766,950	766,950
-	-	64,946	64,946

<u>\$ 82,993</u>	<u>\$ 195,674</u>	<u>\$ 866,848</u>	<u>\$ 1,873,153</u>
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CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the Year Ended June 30, 2010

	Exhibit C Enterprise Fund <hr/> Sewer <hr/>
OPERATING RECEIPTS:	
Charge for service	\$ 212,982
Total operating receipts	<u>\$ 212,982</u>
OPERATING DISBURSEMENTS:	
Business type activities	\$ 1,914,977
Total operating disbursements	<u>\$ 1,914,977</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ (1,701,995)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 1,068,201
Uses of money and property	4,272
Miscellaneous	2,611
Total non-operating receipts (disbursements)	<u>\$ 1,075,084</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (626,911)</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ 692,800
Operating transfers in	-
Operating transfers out	-
Total other financing sources (uses)	<u>\$ 692,800</u>
NET CHANGE IN CASH BALANCES	\$ 65,889
CASH BALANCES, BEGINNING OF YEAR	<u>269,403</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 335,292</u></u>
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 79,387
Reserved for capital replacement	98,875
Unreserved	157,030
Total cash basis fund balances	<u><u>\$ 335,292</u></u>

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

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies

The City of Stuart, Iowa is a political subdivision of the State of Iowa located in Adair and Guthrie Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, culture and recreation, community and economic development and general government services. The City also provides water, electric and sewer utilities for its citizens.

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

Discretely Presented Component Unit

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

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

Government-wide Financial Statements – 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 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.

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 proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

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 that are not paid from other funds.

Special Revenue:

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

The Employee Benefit 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 City reports the following major proprietary fund:

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

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.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 1. Summary of Significant Accounting Policies (continued)

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.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements did not exceed the amounts budgeted.

Note 2. Deposits and Investments

The City's deposits in banks at June 30, 2010, 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; and 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.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 3. Notes Payable

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

Year Ending <u>June 30,</u>	Principal			
	Obligation	General	Other	Total
	<u>Notes</u>	<u>Revenue</u>	<u>Debt</u>	
2011	\$ 400,745	\$ 65,600	\$ 6,000	\$ 472,345
2012	405,000	65,000	7,000	477,000
2013	390,000	70,000	7,500	467,500
2014	405,000	75,000	8,000	488,000
2015	415,000	75,000	---	490,000
2016-2020	2,115,000	435,000	---	2,550,000
2021-2025	1,650,000	---	---	1,650,000
2026-2029	<u>1,335,000</u>	<u>---</u>	<u>---</u>	<u>1,335,000</u>
	<u>\$7,115,745</u>	<u>\$785,600</u>	<u>\$28,500</u>	<u>\$7,929,845</u>

Year Ending <u>June 30,</u>	Interest			
	Obligation	General	Other	Total
	<u>Notes</u>	<u>Revenue</u>	<u>Debt</u>	
2011	\$ 317,481	\$ 26,846	\$ 1,283	\$ 345,610
2012	306,744	24,761	1,013	332,518
2013	294,338	22,663	518	317,519
2014	280,476	20,808	360	301,644
2015	265,008	18,820	---	283,828
2016-2020	1,050,564	52,145	---	1,102,709
2021-2025	620,056	---	---	620,056
2026-2029	<u>175,321</u>	<u>---</u>	<u>---</u>	<u>175,321</u>
	<u>\$3,309,988</u>	<u>\$166,043</u>	<u>\$ 3,174</u>	<u>\$3,479,205</u>

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.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 3. Notes Payable (continued)

- 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 to 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 no less than 110% of the amount of principal and interest on the notes falling due in the same year.

Other Debt

On July 11, 2006, the City entered into a note agreement with a financial institution for financing the purchase of a pickup truck for the sewer department at a cost of \$19,439 at 5.50% interest. Interest and principal payments are due July 11 beginning July 11, 2007. The balance at June 30, 2010 is \$0.

On November 21, 2006, the City entered into a note agreement with a financial institution for financing the cost of a new police car at a cost of \$24,000 at 5.25% interest. Interest payments and principal payments are due November 21 beginning November 21, 2007. The balance at June 30, 2010 is \$0.

On July 22, 2009, the City entered into a note agreement with a financial institution for financing the cost of a new fire truck at a cost of \$33,500 at 4.50% interest. Interest payments are due May 1 and November 1. Principal payments are due May 1 beginning May 1, 2010. The balance at June 30, 2010 is \$28,500.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2010

Note 4. Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% 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, 2010 was \$28,159, equal to the required contribution for the year.

Note 5. 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, 2010, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 9,316</u>

This liability has been computed based on rates of pay as of June 30, 2010.

CITY OF STUART, IOWA
 NOTES TO FINANCIAL STATEMENTS
 June 30, 2010

Note 6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Debt service	\$ 8,876
	Special revenue:	
	Emergency	<u>11,000</u>
		<u>\$ 19,876</u>
Debt service	Special revenue:	
	Road use	<u>\$ 60,271</u>
Special revenue:		
Employee benefits	General	<u>\$ 35,000</u>
Economic Development	General	<u>\$ 75,268</u>
Total		<u>\$190,415</u>

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

Note 7. 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. 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.

Note 8. Jointly Governed Organizations

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

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STUART, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 Year Ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total
RECEIPTS:			
Property tax	\$ 811,170	\$ -	\$ 811,170
Tax increment financing	480,833	-	480,833
Other city tax	201,258	-	201,258
Licenses and permits	2,614	-	2,614
Use of money and property	7,239	4,272	11,511
Intergovernmental	162,818	1,068,201	1,231,019
Charges for service	256,257	212,982	469,239
Special assessments	8,344	-	8,344
Miscellaneous	220,886	2,611	223,497
TOTAL RECEIPTS	<u>\$ 2,151,419</u>	<u>\$ 1,288,066</u>	<u>\$ 3,439,485</u>
DISBURSEMENTS:			
Public safety	\$ 515,421	\$ -	\$ 515,421
Public works	314,605	-	314,605
Culture and recreation	80,589	-	80,589
Community and economic development	529,641	-	529,641
General government	204,667	-	204,667
Debt service	713,671	-	713,671
Capital projects	3,535,162	-	3,535,162
Business type activities	-	1,914,977	1,914,977
TOTAL DISBURSEMENTS	<u>\$ 5,893,756</u>	<u>\$ 1,914,977</u>	<u>\$ 7,808,733</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (3,742,337)	\$ (626,911)	\$ (4,369,248)
OTHER FINANCING SOURCES (USES), NET	<u>1,622</u>	<u>692,800</u>	<u>694,422</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ (3,740,715)	\$ 65,889	\$ (3,674,826)
BALANCE, BEGINNING OF YEAR	<u>5,613,868</u>	<u>269,403</u>	<u>5,883,271</u>
BALANCE, END OF YEAR	<u>\$ 1,873,153</u>	<u>\$ 335,292</u>	<u>\$ 2,208,445</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
\$ 764,885	\$ 764,885	\$ 46,285
481,940	481,940	(1,107)
204,296	204,296	(3,038)
9,765	9,765	(7,151)
31,704	31,704	(20,193)
188,714	188,714	1,042,305
434,470	3,799,470	(3,330,231)
-	-	8,344
35,000	35,000	188,497
<u>\$ 2,150,774</u>	<u>\$ 5,515,774</u>	<u>\$ (2,076,289)</u>
\$ 510,993	\$ 657,993	\$ 142,572
286,202	426,202	111,597
89,766	109,766	29,177
467,953	552,784	23,143
195,668	240,668	36,001
353,266	728,266	14,595
10,000	4,225,000	689,838
175,000	3,240,000	1,325,023
<u>\$ 2,088,848</u>	<u>\$ 10,180,679</u>	<u>\$ 2,371,946</u>
\$ 61,926	\$ (4,664,905)	\$ 295,657
-	365,000	329,422
\$ 61,926	\$ (4,299,905)	<u>\$ 625,079</u>
1,454,328	6,044,328	
<u>\$ 1,516,254</u>	<u>\$ 1,744,423</u>	

CITY OF STUAT, IOWA
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2010

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-programs. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects 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 amendment increased budgeted disbursements by \$8,091,831. The budget amendments are reflected in the final budgeted amounts.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

Schedule 1

	Special Revenue		
	Expendable Trusts		
	Emergency	Fire/ Rescue	Library
RECEIPTS:			
Property tax	\$ 10,157	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	145	-	208
Intergovernmental	-	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	-	633	19
TOTAL RECEIPTS	\$ 10,302	\$ 633	\$ 227
DISBURSEMENTS:			
Operating:			
Public safety	\$ -	\$ 675	\$ -
Public works	-	-	-
Health and social services	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
TOTAL DISBURSEMENTS	\$ -	\$ 675	\$ -
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 10,302	\$ (42)	\$ 227
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(11,000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	\$ (11,000)	\$ -	\$ -

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
\$ -	\$ -	\$ 10,157
-	-	-
-	-	-
-	-	-
-	1,701	2,054
-	-	-
-	-	-
-	-	-
89,245	-	89,897
<u>\$ 89,245</u>	<u>\$ 1,701</u>	<u>\$ 102,108</u>

\$ -	\$ -	\$ 675
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
3,535,162	-	3,535,162
<u>\$ 3,535,162</u>	<u>\$ -</u>	<u>\$ 3,535,837</u>

<u>\$ (3,445,917)</u>	<u>\$ 1,701</u>	<u>\$ (3,433,729)</u>
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\$ -	\$ -	\$ -
<u>-</u>	<u>-</u>	<u>(11,000)</u>

<u>\$ -</u>	<u>\$ -</u>	<u>\$ (11,000)</u>
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CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2010

Schedule 1

	Special Revenue		
	Emergency	Expendable Trusts	
		Fire/ Rescue	Library
NET CHANGE IN CASH BALANCE	\$ (698)	\$ (42)	\$ 227
CASH BALANCES, BEGINNING OF YEAR	21,170	1,511	12,784
CASH BALANCES, END OF YEAR	\$ 20,472	\$ 1,469	\$ 13,011
CASH BASIS FUND BALANCES:			
Reserve:			
Debt service	\$ -	\$ -	\$ -
Unreserved:			
General fund	-	-	-
Special revenue funds	20,472	1,469	13,011
Capital projects fund	-	-	-
Permanent fund	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 20,472	\$ 1,469	\$ 13,011

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
\$ (3,445,917)	\$ 1,701	\$ (3,444,729)
<u>4,212,867</u>	<u>63,245</u>	<u>4,311,577</u>
<u>\$ 766,950</u>	<u>\$ 64,946</u>	<u>\$ 866,848</u>
\$ -	\$ -	\$ -
-	-	-
-	-	34,952
766,950	-	766,950
-	64,946	64,946
<u>\$ 766,950</u>	<u>\$ 64,946</u>	<u>\$ 866,848</u>

CITY OF STUART, IOWA
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2010

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
General obligation notes:			
Division street improvements	Dec 1, 2011	3.50-5.00%	\$ 215,000
Rescue unit	May 1, 2007	5.00%	40,000
Annual anticipation capital loan notes	Dec 18, 2007	4.75-4.95%	1,700,000
Street improvements	Oct 15, 2008	2.45-4.05%	1,165,000
Corporate purpose and refunding	June 15, 2009	1.75-5.75%	4,590,000
Aquatic center	Sept 27, 2007	4.00-4.40%	400,000
Total			
Revenue notes:			
Sewer	Sept 15, 2006	3.95-4.15%	19,439
Sewer - SRF	Dec 9, 2009	3.00%	24,000
Sewer	Dec 15, 2009	2.15-4.05%	33,500
Total			
Bank loans:			
Sewer department pickup truck	July 11, 2006	5.50%	810,000
Police car	Nov 21, 2006	5.75%	2,383,000
Fire truck	July 22, 2009	4.50%	210,342
Total			

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>
\$ 75,000	\$ -	\$ 25,000	\$ 50,000	\$ 3,663
20,978	-	10,233	10,745	1,049
1,675,000	-	60,000	1,615,000	80,853
1,130,000	-	95,000	1,035,000	40,543
4,590,000	-	185,000	4,405,000	196,891
365,000	-	365,000	-	1,880
<u>\$ 7,855,978</u>	<u>\$ -</u>	<u>\$ 740,233</u>	<u>\$ 7,115,745</u>	<u>\$ 324,879</u>
\$ 95,000	\$ -	\$ 30,000	\$ 65,000	\$ 3,898
-	10,600	-	10,600	-
-	710,000	-	710,000	5,034
<u>\$ 95,000</u>	<u>\$ 720,600</u>	<u>\$ 30,000</u>	<u>\$ 785,600</u>	<u>\$ 8,932</u>
\$ 6,830	\$ -	\$ 6,830	\$ -	\$ 376
8,000	-	8,000	-	400
-	33,500	5,000	28,500	1,169
<u>\$ 14,830</u>	<u>\$ 33,500</u>	<u>\$ 19,830</u>	<u>\$ 28,500</u>	<u>\$ 1,945</u>

CITY OF STUART, IOWA
BOND AND OTHER DEBT MATURITIES
JUNE 30, 2010

Schedule 3

Year Ending June 30,	General Obligation Notes					
	Street Improvements Issued March 1, 1999		Rescue Truck Issued May 1, 2007		Annual Appropriation Issued December 18, 2007	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.50	\$ 25,000	5.00	\$ 10,745	4.95	\$ 60,000
2012	4.60	25,000			4.95	65,000
2013	-	-			4.95	70,000
2014	-	-			4.95	70,000
2015	-	-			4.95	75,000
2016	-	-			4.95	80,000
2017	-	-			4.95	85,000
2018	-	-			4.95	90,000
2019	-	-			4.85	95,000
2020	-	-			4.60	100,000
2021	-	-			4.65	100,000
2022	-	-			4.70	105,000
2023	-	-			4.75	110,000
2024	-	-			4.75	120,000
2025	-	-			4.75	125,000
2026	-	-			4.75	130,000
2027	-	-			-	135,000
2028	-	-			-	-
2029	-	-			-	-
		<u>\$ 50,000</u>		<u>\$ 10,745</u>		<u>\$ 1,615,000</u>

Year Ending June 30,	Revenue Notes					
	Sewer Revenue Notes Issued September 15, 2006		Sewer State Revolving Loans Issued December 9, 2009		Sewer Revenue Notes Issued December 15, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2011	4.10	\$ 30,000	3.00	\$ 10,600	2.15	\$ 25,000
2012	4.15	35,000	-	-	2.15	30,000
2013	-	-	-	-	2.65	70,000
2014	-	-	-	-	2.65	75,000
2015	-	-	-	-	3.25	75,000
2016	-	-	-	-	3.25	80,000
2017	-	-	-	-	3.70	85,000
2018	-	-	-	-	3.70	85,000
2019	-	-	-	-	4.05	90,000
2020	-	-	-	-	4.05	95,000
Total		<u>\$ 65,000</u>		<u>\$ 10,600</u>		<u>\$ 710,000</u>

See accompanying independent auditor's report.

General Obligation Notes

Street Improvements Issued March 25, 2008		Corporate Purpose Issued March 25, 2008		Total General Obligation Notes
Interest Rates	Amount	Interest Rates	Amount	
2.95	\$ 100,000	2.35	\$ 205,000	\$ 400,745
3.15	105,000	2.80	210,000	405,000
3.35	105,000	3.20	215,000	390,000
3.55	115,000	3.60	220,000	405,000
3.70	115,000	3.85	225,000	415,000
3.85	120,000	4.05	240,000	440,000
4.00	125,000	4.20	245,000	455,000
4.05	130,000	4.40	260,000	480,000
4.15	60,000	4.60	220,000	375,000
4.15	60,000	4.75	205,000	365,000
-	-	4.90	215,000	315,000
-	-	5.00	205,000	310,000
-	-	5.10	210,000	320,000
-	-	5.20	225,000	345,000
-	-	5.35	235,000	360,000
-	-	5.50	245,000	375,000
-	-	5.60	260,000	395,000
-	-	5.70	275,000	275,000
-	-	5.75	290,000	290,000
	<u>\$ 1,035,000</u>		<u>\$ 4,405,000</u>	<u>\$ 7,115,745</u>

Total Revenue Notes	Other Debt Fire Truck Issued July 22, 2009		Total Other Debt
	Interest Rates	Amount	
\$ 65,600	4.50	\$ 6,000	\$ 6,000
65,000	4.50	7,000	7,000
70,000	4.50	7,500	7,500
75,000	4.50	8,000	8,000
75,000		-	-
80,000		-	-
85,000		-	-
85,000		-	-
90,000		-	-
95,000		-	-
<u>\$ 785,600</u>		<u>\$ 28,500</u>	<u>\$ 28,500</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 Honorable Mayor and
Members of the City Council
City of Stuart, Iowa

We have audited the financial statements of the government activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of City of Stuart, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City of Stuart, Iowa's basic financial statements and have issued our report thereon dated January 25, 2011. We conducted our audit in accordance with U.S. generally accepted auditing standards generally 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 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 City of Stuart, Iowa's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Stuart, Iowa's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying Schedule of Findings that we consider to be significant deficiencies in internal control over financial reporting.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether 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 grant 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 City's operations for the year ended June 30, 2010, 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.

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

This report is intended solely for the information and use of the management, City Council, others within the entity, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Drapen, Smidgrass, Mikkelsen & Co., P.C.

January 25, 2011

CITY OF STUART
SCHEDULE OF FINDINGS
Year Ended June 30, 2010

SIGNIFICANT DEFICIENCIES

2010-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 City of Stuart, Iowa.

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

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

Conclusion – Response accepted.

OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2010-1 Certified Budget – Disbursements during the year ended June 30, 2010 did not exceed the amounts budgeted in the business type activities functions.

2010-2 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.

2010-3 Travel Expense – No disbursements of the City of Stuart, Iowa’s money for travel expenses of spouses of the City of Stuart, Iowa’s or officials or employees were noted.

2010-4 Business Transactions – We noted no business transactions between the City of Stuart, Iowa and the City of Stuart, Iowa’s officials or employees.

2010-5 Bond Coverage – Surety bond coverage of the City of Stuart, Iowa’s officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

CITY OF STUART
SCHEDULE OF FINDINGS
Year Ended June 30, 2010

2010-6 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

2010-7 Revenue Bonds – The City of Stuart, Iowa has complied with the provisions of the revenue bond indentures.

2010-8 Deposits and Investments – The City of Stuart, Iowa has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

2010-9 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."

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.

Response – We will transfer funds to the Debt Service Fund and pay the general obligation debt from the Debt Service Fund.

Conclusion – Response accepted