

CITY OF STUART, IOWA

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

Year Ended June 30, 2011

CITY OF STUART, IOWA  
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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, 2011, 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.

In our opinion, 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, 2011, 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 19, 2012, 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 22 through 23 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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the one year ended June 30, 2010 (which are not presented herein) and expressed qualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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, Smidgrasso, Mickelson + Co., P.C.*

January 19, 2012

## **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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

### **2011 Financial Highlights**

The cash basis net assets of the City's governmental activities decreased approximately \$451,064 due primarily to use of reserve.

The cash basis net assets of the City's business type activities increased approximately \$609,869 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 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 those 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 \$1,873,153 to \$1,422,089. 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

	<u>Year Ended June 30, 2011</u>
Receipts and transfers:	
Program receipts:	
Charges for services	\$ 343,910
General receipts:	
Property tax	817,338
Tax incremental financing	577,905
Other city tax	201,578
Licenses and permits	3,891
Use of money and property	4,578
Intergovernmental	174,058
Special assessments	10,464
Miscellaneous	<u>181,477</u>
Total receipts	<u>\$ 2,315,199</u>
Disbursements:	
Public safety	\$ 570,788
Public works	301,213
Culture and recreation	160,035
Community and economic development	473,008
General government	259,842
Debt service	356,684
Capital projects	<u>644,693</u>
Total disbursements	<u>\$ 2,766,263</u>
Decrease in cash basis net assets	\$ (451,064)
Cash basis net assets beginning of fiscal year	<u>1,873,153</u>
Cash basis net assets end of fiscal year	<u>\$ 1,422,089</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

	<u>Year Ended June 30, 2011</u>
OPERATING RECEIPTS:	
Charges for service	\$ 344,998
Total operating receipts	<u>\$ 344,998</u>
OPERATING DISBURSEMENTS:	
Business type activities	<u>\$ 1,771,330</u>
Total operating disbursements	<u>\$ 1,771,330</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$(1,426,332)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 1,049,012
Uses of money and property	3,719
Miscellaneous	<u>3,473</u>
Total non-operating receipts (disbursements)	<u>\$ 1,056,204</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (370,128)</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ 979,997
Operating transfers in	---
Operating transfers out	<u>---</u>
Total other financing sources (uses)	<u>\$ 979,997</u>
NET CHANGES IN CASH BALANCES	\$ 609,869
CASH BALANCES, BEGINNING OF YEAR	<u>335,292</u>
CASH BALANCES, END OF YEAR	<u>\$ 945,161</u>
CASH BASIS FUND BALANCES	
Reserved for debt service	\$ 79,387
Reserved for capital replacement	98,875
Unreserved	<u>766,899</u>
Total cash basis fund balances	<u>\$ 945,161</u>

Total business type activity cash balances increased by \$609,869, from a year ago, increasing from \$335,292 to \$945,161. The increase was due to increase sewer rate and bond proceeds.

## Individual Major Governmental Fund Analysis

As the City of Stuart completed the year, its governmental funds reported a combined fund balance of \$142,209, a decrease of more than \$451,064 from the prior year.

## Individual Major Business Type Fund Analysis

The Sewer Fund cash balance increased \$609,869 to a year-end balance of \$945,161. The increase was due to increase of sewer rate. Also, interest on investments.

## Budgetary Highlights

In accordance with the Code of Iowa, the City of Stuart 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).

## Debt Administration

At June 30, 2011, the City had \$8,442,597 in notes and other long-term debt outstanding, compared to \$7,953,845 at the end of last year. The chart below segregates the City's debt into its component parts.

	Outstanding Debt at Year End	
	2011	June 30, 2010
General obligation notes	\$6,715,000	\$7,115,745
Revenue notes	1,710,597	785,600
Bank loans	<u>17,000</u>	<u>52,500</u>
Total	<u>\$8,442,597</u>	<u>\$7,953,845</u>

## Economic Factors and Next Year's Budget and Rates

The City Council considers many factors when setting the 2012 fiscal year budget.

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

These factors all contributed when adopting the fiscal year 2012 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 2012 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, 2011

Exhibit A

	Disbursements	PROGRAM RECEIPTS		
		Charges For Services	Operating Grants Contributions, and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>FUNCTIONS/PROGRAMS:</b>				
Governmental activities:				
Public safety	\$ 570,789	\$ 185,782	\$ 23,666	\$ -
Public works	301,212	104,976	163,199	-
Health and social services	-	-	-	-
Culture and recreation	160,036	63,594	17,842	-
Community/economic development	473,008	-	-	-
General government	259,842	-	-	-
Debt service	356,684	-	-	-
Capital projects	644,693	-	-	-
Total governmental activities	<u>\$ 2,766,264</u>	<u>\$ 354,352</u>	<u>\$ 204,707</u>	<u>\$ -</u>
Business type activities:				
Sewer	\$ 1,771,330	\$ 344,998	\$ -	\$ 1,049,012
Total business type activities	<u>\$ 1,771,330</u>	<u>\$ 344,998</u>	<u>\$ -</u>	<u>\$ 1,049,012</u>
<b>TOTAL PRIMARY GOVERNMENT</b>	<u><b>\$ 4,537,594</b></u>	<u><b>\$ 699,350</b></u>	<u><b>\$ 204,707</b></u>	<u><b>\$ 1,049,012</b></u>
<b>COMPONENT UNIT:</b>				
Utilities	<u>\$ 4,511,886</u>	<u>\$ 2,292,936</u>	<u>\$ -</u>	<u>\$ -</u>
<b>GENERAL RECEIPTS:</b>				
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				
<b>TOTAL GENERAL RECEIPTS</b>				
<b>CHANGE IN CASH BASIS NET ASSETS</b>				
<b>CASH BASIS NET ASSETS, BEGINNING OF YEAR</b>				
<b>CASH BASIS NET ASSETS, END OF YEAR</b>				
<b>CASH BASIS NET ASSETS:</b>				
Restricted				
Nonexpendable:				
Cemetery perpetual care				
Expendable:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
<b>TOTAL CASH BASIS NET ASSETS</b>				

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

**NET (DISBURSEMENTS) RECEIPTS AND CHANGES**

Governmental Activities	Business Type Activities	Total	Component Unit
			Utilities
\$ (361,341)	\$ -	\$ (361,341)	\$ -
(33,037)	-	(33,037)	-
-	-	-	-
(78,600)	-	(78,600)	-
(473,008)	-	(473,008)	-
(259,842)	-	(259,842)	-
(356,684)	-	(356,684)	-
(644,693)	-	(644,693)	-
<u>\$ (2,207,205)</u>	<u>\$ -</u>	<u>\$ (2,207,205)</u>	<u>\$ -</u>
\$ -	\$ (377,320)	\$ (377,320)	\$ -
\$ -	\$ (377,320)	\$ (377,320)	\$ -
\$ (2,207,205)	\$ (377,320)	\$ (2,584,525)	\$ -
			<u>\$ (2,218,950)</u>
\$ 482,572	\$ -	\$ 482,572	\$ -
577,905	-	577,905	-
303,721	-	303,721	-
82,943	-	82,943	-
118,635	-	118,635	-
4,577	3,719	8,296	74,823
-	979,997	979,997	1,834,910
185,133	3,473	188,606	78,946
655	-	655	-
-	-	-	-
<u>\$ 1,756,141</u>	<u>\$ 987,189</u>	<u>\$ 2,743,330</u>	<u>\$ 1,988,679</u>
\$ (451,064)	\$ 609,869	\$ 158,805	\$ (230,271)
<u>1,873,153</u>	<u>335,292</u>	<u>2,208,445</u>	<u>3,092,904</u>
<u>\$ 1,422,089</u>	<u>\$ 945,161</u>	<u>\$ 2,367,250</u>	<u>\$ 2,862,633</u>
\$ 67,127	\$ -	\$ 67,127	
180,768	-	180,768	
112,712	-	112,712	
196,872	79,387	276,259	
116,137	98,875	215,012	
<u>748,473</u>	<u>766,899</u>	<u>1,515,372</u>	
<u>\$ 1,422,089</u>	<u>\$ 945,161</u>	<u>\$ 2,367,250</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, 2011

Exhibit B

	SPECIAL REVENUE		
	General	Employee Benefits	Urban Renewal Tax Increment
RECEIPTS:			
Property taxes	\$ 400,028	\$ 124,053	\$ -
Tax increment financing collections	-	-	577,905
Other city taxes	201,578	-	-
Licenses and permits	3,891	-	-
Use of money and property	848	425	90
Intergovernmental	10,859	-	-
Charges for service	343,910	-	-
Special assessments	-	-	-
Miscellaneous	136,440	-	-
Total receipts	\$ 1,097,554	\$ 124,478	\$ 577,995
DISBURSEMENTS:			
Operating:			
Public safety	\$ 508,644	\$ 61,717	\$ -
Public works	139,793	33,748	-
Health and social services	-	-	-
Culture and recreation	152,734	7,301	-
Community/economic development	-	-	473,008
General government	223,848	35,994	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	\$ 1,025,019	\$ 138,760	\$ 473,008
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 72,535	\$ (14,282)	\$ 104,987
OTHER FINANCING SOURCES (USES):			
Sale of property	\$ 655	\$ -	\$ -
Bond proceeds	-	-	-
Operating transfers in	86,885	35,000	-
Operating transfers out	(35,000)	-	(75,268)
TOTAL OTHER FINANCING SOURCES (USES)	\$ 52,540	\$ 35,000	\$ (75,268)
NET CHANGE IN CASH BALANCES	\$ 125,075	\$ 20,718	\$ 29,719
CASH BALANCES, BEGINNING OF YEAR	471,535	82,352	82,993
CASH BALANCES, END OF YEAR	\$ 596,610	\$ 103,070	\$ 112,712
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Urban renewal purposes	-	-	112,712
Debt service	-	-	-
Street	-	-	-
Other purposes	-	103,070	-
Unassigned	596,610	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 596,610	\$ 103,070	\$ 112,712

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

Debt Service	Other Nonmajor Governmental Funds	Total
\$ 293,257	\$ -	\$ 817,338
-	-	577,905
-	-	201,578
-	-	3,891
415	2,800	4,578
-	163,199	174,058
-	-	343,910
10,464	-	10,464
-	44,382	180,822
<u>\$ 304,136</u>	<u>\$ 210,381</u>	<u>\$ 2,314,544</u>
\$ -	\$ 427	\$ 570,788
-	127,672	301,213
-	-	-
-	-	160,035
-	-	473,008
-	-	259,842
356,684	-	356,684
-	644,693	644,693
<u>\$ 356,684</u>	<u>\$ 772,792</u>	<u>\$ 2,766,263</u>
<u>\$ (52,548)</u>	<u>\$ (562,411)</u>	<u>\$ (451,719)</u>
\$ -	\$ -	\$ 655
-	-	-
64,210	-	186,095
(10,464)	(65,363)	(186,095)
<u>\$ 53,746</u>	<u>\$ (65,363)</u>	<u>\$ 655</u>
\$ 1,198	\$ (627,774)	\$ (451,064)
195,674	1,040,599	1,873,153
<u>\$ 196,872</u>	<u>\$ 412,825</u>	<u>\$ 1,422,089</u>
\$ -	\$ 67,127	\$ 67,127
-	-	112,712
196,872	-	196,872
-	180,768	180,768
-	13,067	116,137
-	151,863	748,473
<u>\$ 196,872</u>	<u>\$ 412,825</u>	<u>\$ 1,422,089</u>

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, 2011

	Exhibit C
	Enterprise Fund
	<u>Sewer</u>
OPERATING RECEIPTS:	
Charge for service	\$ 344,998
Total operating receipts	<u>\$ 344,998</u>
OPERATING DISBURSEMENTS:	
Business type activities	\$ 1,771,330
Total operating disbursements	<u>\$ 1,771,330</u>
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	<u>\$ (1,426,332)</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 1,049,012
Uses of money and property	3,719
Miscellaneous	3,473
Total non-operating receipts (disbursements)	<u>\$ 1,056,204</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	<u>\$ (370,128)</u>
OTHER FINANCING SOURCES (USES):	
Bond proceeds	\$ 979,997
Operating transfers in	-
Operating transfers out	-
Total other financing sources (uses)	<u>\$ 979,997</u>
NET CHANGE IN CASH BALANCES	\$ 609,869
CASH BALANCES, BEGINNING OF YEAR	<u>335,292</u>
CASH BALANCES, END OF YEAR	<u><u>\$ 945,161</u></u>
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 79,387
Reserved for capital replacement	98,875
Unreserved	766,899
Total cash basis fund balances	<u><u>\$ 945,161</u></u>

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

CITY OF STUART, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

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, 2011

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 the following categories/components:

Nonexpendable restricted net assets are subject to externally imposed stipulations which require them to be maintained permanently by the City, including the City's permanent fund.

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

Unrestricted net assets consist of net assets not meeting the definition of the preceding categories. 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, 2011

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 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.

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.

CITY OF STUART, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Cash Basis Fund Balances:

In the governmental fund financial statements, cash basis fund balances are classified as follows:

Nonspendable – Amounts which cannot be spent because they are legally or contractually required to be maintained intact.

Restricted – Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors, or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned – All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceed the amounts budgeted in the Culture and Recreation, General Government, Capital Projects, and Business Type Activities Functions prior to the budget amendment.

Note 2. Deposits and Investments

The City's deposits in banks at June 30, 2011, 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, 2011

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 June 30,	Principal			
	General Obligation Notes	Sewer Revenue	Other Debt	Total
2012	\$ 405,000	\$ 120,000	\$ 8,000	\$ 533,000
2013	390,000	126,000	9,000	525,000
2014	405,000	131,000	---	536,000
2015	415,000	131,000	---	546,000
2016	440,000	142,000	---	582,000
2017-2021	1,990,000	684,000	---	2,674,000
2022-2026	1,710,000	376,597	---	2,086,597
2027-2029	<u>960,000</u>	<u>---</u>	<u>---</u>	<u>960,000</u>
	<u>\$6,715,000</u>	<u>\$1,710,597</u>	<u>\$17,000</u>	<u>\$8,442,597</u>

Year Ending June 30,	Interest			
	General Obligation Notes	Sewer Revenue	Other Debt	Total
2012	\$ 307,994	\$ 54,479	\$ 618	\$ 363,091
2013	294,338	50,731	214	345,283
2014	280,476	47,196	---	327,672
2015	265,008	43,528	---	308,536
2016	248,378	39,411	---	287,789
2017-2021	957,217	122,460	---	1,079,677
2022-2026	537,998	34,050	---	572,048
2027-2029	<u>102,348</u>	<u>---</u>	<u>---</u>	<u>102,348</u>
	<u>\$ 2,993,757</u>	<u>\$391,855</u>	<u>\$ 832</u>	<u>\$3,386,444</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, 2011

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 April 22, 2009, 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% interest. Interest payments are due May 1 and November 1. Principal payments are due November 1 beginning November 1, 2010. The balance at June 30, 2011 is \$17,000.

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.

CITY OF STUART, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011

Note 4. Pension and Retirement Benefits (continued)

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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, 2011 and 2010 was \$29,992 and \$28,159 respectively, equal to the required contribution for each 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, 2011, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 6,783</u>

This liability has been computed based on rates of pay as of June 30, 2011.

Note 6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Debt service	\$ 10,464
	Special revenue:	
	Library	1,153
	Economic development	<u>75,268</u>
		<u>\$ 86,885</u>
Debt service	Special revenue:	
	Road use	<u>\$ 64,210</u>
Special revenue:		
Employee benefits	General	<u>\$ 35,000</u>
Total		<u>\$186,095</u>

CITY OF STUART, IOWA  
NOTES TO FINANCIAL STATEMENTS  
June 30, 2011

Note 6. Interfund Transfers (continued)

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.

Note 9. Subsequent Events

In August 2011, the City approved the issuance of \$1,650,000 GO Municipal Building Bonds.

In October 2011, the City awarded a contract for sanitary sewer improvements for a bid amount of \$209,092.

In December 2011, the City approved issuance of GO Ambulance Note in the amount not to exceed \$105,000 to finance the purchase of a new ambulance.

Management has evaluated subsequent events through January 19, 2012, the date on which the financial statements were available to be issued.

CITY OF STUART, IOWA  
 NOTES TO FINANCIAL STATEMENTS  
 June 30, 2011

Note 10. Accounting Change/Restatement

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	<u>General</u>	<u>Special Revenue Emergency Levy</u>
Balances June 30, 2010, as previously reported	\$ 451,063	\$ 20,472
Change in fund type classification per implementation of GASB Statement No. 54	<u>20,472</u>	<u>(20,472)</u>
Balances July 1, 2010, as restated	<u>\$ 471,535</u>	<u>\$ ---</u>

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, 2011

	<u>Governmental</u>	<u>Proprietary</u>
	<u>Funds</u>	<u>Funds</u>
	<u>Actual</u>	<u>Actual</u>
RECEIPTS:		
Property tax	\$ 817,338	\$ -
Tax increment financing	577,905	-
Other city tax	201,578	-
Licenses and permits	3,891	-
Use of money and property	4,578	3,719
Intergovernmental	174,058	1,049,012
Charges for service	343,910	344,998
Special assessments	10,464	-
Miscellaneous	180,822	3,473
TOTAL RECEIPTS	<u>\$ 2,314,544</u>	<u>\$ 1,401,202</u>
DISBURSEMENTS:		
Public safety	\$ 570,788	\$ -
Public works	301,213	-
Culture and recreation	160,035	-
Community and economic development	473,008	-
General government	259,842	-
Debt service	356,684	-
Capital projects	644,693	-
Business type activities	-	1,771,330
TOTAL DISBURSEMENTS	<u>\$ 2,766,263</u>	<u>\$ 1,771,330</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (451,719)	\$ (370,128)
OTHER FINANCING SOURCES (USES), NET	<u>655</u>	<u>979,997</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ (451,064)	\$ 609,869
BALANCE, BEGINNING OF YEAR	<u>1,873,153</u>	<u>335,292</u>
BALANCE, END OF YEAR	<u>\$ 1,422,089</u>	<u>\$ 945,161</u>

See accompanying independent auditor's report.

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Total	Budgeted Amounts		Final to Total Variance
	Original	Final	
\$ 817,338	\$ 769,525	\$ 769,525	\$ 47,813
577,905	565,693	565,693	12,212
201,578	207,166	207,166	(5,588)
3,891	9,765	9,765	(5,874)
8,297	32,204	32,204	(23,907)
1,223,070	515,006	910,006	313,064
688,908	1,740,970	4,215,970	(3,527,062)
10,464	-	-	10,464
184,295	35,000	35,000	149,295
<u>\$ 3,715,746</u>	<u>\$ 3,875,329</u>	<u>\$ 6,745,329</u>	<u>\$ (3,029,583)</u>
\$ 570,788	\$ 540,185	\$ 682,185	\$ 111,397
301,213	290,335	463,433	162,220
160,035	111,232	210,232	50,197
473,008	557,588	557,588	84,580
259,842	196,071	314,071	54,229
356,684	353,014	363,014	6,330
644,693	300,000	1,275,000	630,307
1,771,330	1,475,000	2,475,000	703,670
<u>\$ 4,537,593</u>	<u>\$ 3,823,425</u>	<u>\$ 6,340,523</u>	<u>\$ 1,802,930</u>
\$ (821,847)	\$ 51,904	\$ 404,806	\$ (1,226,653)
980,652	-	299,732	680,920
\$ 158,805	\$ 51,904	\$ 704,538	<u>\$ (545,733)</u>
2,208,445	1,271,292	1,271,292	
<u>\$ 2,367,250</u>	<u>\$ 1,323,196</u>	<u>\$ 1,975,830</u>	

CITY OF STUAT, IOWA  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING  
June 30, 2011

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, a budget amendment increased budgeted disbursements by \$4,882,098. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the Culture and Recreation, General Government, Capital Projects, and Business Type Activities Functions prior to budget amendment.

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, 2011

Schedule 1

	Special Revenue		
	Expendable Trusts		
	Road Use	Fire/ Rescue	Library
RECEIPTS:			
Property tax	\$ -	\$ -	\$ -
Tax increment financing collections	-	-	-
Other city tax	-	-	-
Licenses and permits	-	-	-
Uses of money and property	469	-	150
Intergovernmental	163,199	-	-
Charges for services	-	-	-
Special assessments	-	-	-
Miscellaneous	14,759	9	8
<b>TOTAL RECEIPTS</b>	<b>\$ 178,427</b>	<b>\$ 9</b>	<b>\$ 158</b>
DISBURSEMENTS:			
Operating:			
Public safety	\$ -	\$ 427	\$ -
Public works	127,672	-	-
Health and social services	-	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
General government	-	-	-
Debt service	-	-	-
Capital projects	-	-	-
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 127,672</b>	<b>\$ 427</b>	<b>\$ -</b>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ 50,755	\$ (418)	\$ 158
OTHER FINANCING SOURCES (USES):			
Operating transfers in	\$ -	\$ -	\$ -
Operating transfers out	(64,210)	-	(1,153)
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$ (64,210)</b>	<b>\$ -</b>	<b>\$ (1,153)</b>

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	2,181	2,800
-	-	163,199
-	-	-
-	-	-
29,606	-	44,382
<u>\$ 29,606</u>	<u>\$ 2,181</u>	<u>\$ 210,381</u>

\$ -	\$ -	\$ 427
-	-	127,672
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
644,693	-	644,693
<u>\$ 644,693</u>	<u>\$ -</u>	<u>\$ 772,792</u>

<u>\$ (615,087)</u>	<u>\$ 2,181</u>	<u>\$ (562,411)</u>
---------------------	-----------------	---------------------

\$ -	\$ -	\$ -
-	-	(65,363)
<u>          </u>	<u>          </u>	<u>          </u>

<u>\$ -</u>	<u>\$ -</u>	<u>\$ (65,363)</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, 2011

Schedule 1

	Special Revenue		
	Road Use	Expendable Trusts	
		Fire/ Rescue	Library
NET CHANGE IN CASH BALANCE	\$ (13,455)	\$ (418)	\$ (995)
CASH BALANCES, BEGINNING OF YEAR	194,223	1,469	13,011
CASH BALANCES, END OF YEAR	\$ 180,768	\$ 1,051	\$ 12,016
CASH BASIS FUND BALANCES:			
Nonspendable:			
Cemetery perpetual care	\$ -	\$ -	\$ -
Restricted for:			
Street	180,768	-	-
Other purposes	-	1,051	12,016
Unassigned	-	-	-
TOTAL CASH BASIS FUND BALANCES	\$ 180,768	\$ 1,051	\$ 12,016

See accompanying independent auditor's report.

<u>Capital Projects</u>	<u>Permanent Cemetery Perpetual Care</u>	<u>Total</u>
\$ (615,087)	\$ 2,181	\$ (627,774)
<u>766,950</u>	<u>64,946</u>	<u>1,040,599</u>
<u>\$ 151,863</u>	<u>\$ 67,127</u>	<u>\$ 412,825</u>
\$ -	\$ 67,127	\$ 67,127
-	-	180,768
-	-	13,067
<u>151,863</u>	<u>-</u>	<u>151,863</u>
<u>\$ 151,863</u>	<u>\$ 67,127</u>	<u>\$ 412,825</u>

CITY OF STUART, IOWA  
 SCHEDULE OF INDEBTEDNESS  
 Year Ended June 30, 2011

<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
Total			
Revenue notes:			
Sewer	Sept 15, 2006	3.95-4.15%	230,000
Sewer - SRF	Dec 9, 2009	3.00%	1,060,000
Sewer	Dec 15, 2009	2.15-4.05%	710,000
Total			
Bank loans:			
Police car	April 22, 2009	5.00%	24,000
Fire truck	July 22, 2009	4.50%	33,500
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>
\$ 50,000	\$ -	\$ 25,000	\$ 25,000	\$ 2,475
10,745	-	10,745	-	537
1,615,000	-	60,000	1,555,000	77,883
1,035,000	-	100,000	935,000	37,978
4,405,000	-	205,000	4,200,000	201,620
<u>\$ 7,115,745</u>	<u>\$ -</u>	<u>\$ 400,745</u>	<u>\$ 6,715,000</u>	<u>\$ 320,493</u>
\$ 65,000	\$ -	\$ 30,000	\$ 35,000	\$ 2,683
10,600	979,997	-	990,597	5,124
710,000	-	25,000	685,000	23,845
<u>\$ 785,600</u>	<u>\$ 979,997</u>	<u>\$ 55,000</u>	<u>\$ 1,710,597</u>	<u>\$ 31,652</u>
\$ 24,000	\$ -	\$ 7,000	\$ 17,000	\$ 974
28,500	-	28,500	-	1,210
<u>\$ 52,500</u>	<u>\$ -</u>	<u>\$ 35,500</u>	<u>\$ 17,000</u>	<u>\$ 2,184</u>

CITY OF STUART, IOWA  
BOND AND OTHER DEBT MATURITIES  
JUNE 30, 2011

Schedule 3

Year Ending June 30,	General Obligation Notes					
	Street Improvements Issued March 1, 1999		Annual Appropriation Issued December 18, 2007		Street Improvements Issued March 25, 2008	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.60	\$ 25,000	4.95	\$ 65,000	3.15	\$ 105,000
2013		-	4.95	70,000	3.35	105,000
2014		-	4.95	70,000	3.55	115,000
2015		-	4.95	75,000	3.70	115,000
2016		-	4.95	80,000	3.85	120,000
2017		-	4.95	85,000	4.00	125,000
2018		-	4.95	90,000	4.05	130,000
2019		-	4.85	95,000	4.15	60,000
2020		-	4.60	100,000	4.15	60,000
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>\$ 25,000</u>		<u>\$ 1,555,000</u>		<u>\$ 935,000</u>

Year Ending June 30,	Revenue Notes					
	Sewer Revenue Notes Issued September 15, 2006		Sewer State Revolving Loan Issued December 9, 2009		Sewer Revenue Notes Issued December 15, 2009	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2012	4.15	\$ 35,000	3.00	\$ 55,000	2.15	\$ 30,000
2013		-	3.00	56,000	2.65	70,000
2014		-	3.00	56,000	2.65	75,000
2015		-	3.00	56,000	3.25	75,000
2016		-	3.00	62,000	3.25	8,000
2017		-	3.00	62,000	3.70	85,000
2018		-	3.00	62,000	3.70	85,000
2019		-	3.00	68,000	4.05	90,000
2020		-	3.00	68,000	4.05	95,000
2021		-	3.00	69,000	-	-
2022		-	3.00	74,000	-	-
2023		-	3.00	74,000	-	-
2024		-	3.00	75,000	-	-
2025		-	3.00	8,000	-	-
2026		-	3.00	73,597	-	-
Total		<u>\$ 35,000</u>		<u>\$ 990,597</u>		<u>\$ 685,000</u>

See accompanying independent auditor's report.

General Obligation Notes		Total General Obligation Notes
Corporate Purpose		
Issued March 25, 2008		
Interest Rates	Amount	
2.80	\$ 210,000	\$ 405,000
3.20	215,000	390,000
3.60	220,000	405,000
3.85	225,000	415,000
4.05	240,000	440,000
4.20	245,000	455,000
4.40	260,000	480,000
4.60	220,000	375,000
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>\$ 4,200,000</u>	<u>\$ 6,715,000</u>

Total Revenue Notes	Other Debt		Total Other Debt
	Interest Rates	Amount	
\$ 120,000	5.00	\$ 8,000	\$ 8,000
126,000	5.00	9,000	9,000
131,000		-	-
131,000		-	-
142,000		-	-
147,000		-	-
147,000		-	-
158,000		-	-
163,000		-	-
69,000		-	-
74,000		-	-
74,000		-	-
75,000		-	-
80,000		-	-
73,597		-	-
<u>\$ 1,710,597</u>		<u>\$ 17,000</u>	<u>\$ 17,000</u>

CITY OF STUART, IOWA  
STATEMENT OF RECEIPTS BY SOURCE AND DISBURSEMENTS  
BY FUNCTION - ALL GOVERNMENTAL FUNDS  
For the Last Two Years

Schedule 4

	2011	2010
<b>RECEIPTS:</b>		
Property tax	\$ 817,338	\$ 811,170
Tax increment financing collections	577,905	480,833
Other city tax	201,578	201,258
Licenses and permits	3,891	2,614
Uses of money and property	4,578	7,239
Intergovernmental	174,058	162,818
Charges for services	343,910	256,257
Special assessments	10,464	8,344
Miscellaneous	180,822	220,886
<b>TOTAL RECEIPTS</b>	<b>\$ 2,314,544</b>	<b>\$ 2,151,419</b>
 <b>DISBURSEMENTS:</b>		
Operating:		
Public safety	\$ 570,788	\$ 515,421
Public works	301,213	314,605
Health and social services	-	-
Culture and recreation	160,035	80,589
Community and economic development	473,008	529,641
General government	259,842	204,667
Debt service	356,684	713,671
Capital projects	644,693	3,535,162
<b>TOTAL DISBURSEMENTS</b>	<b>\$ 2,766,263</b>	<b>\$ 5,893,756</b>

See accompanying independent auditor's report.

CITY OF STUART, IOWA  
 SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS  
 For the Year Ended June 30, 2011

Schedule 5

<u>Federal grantor/pass-through grant/program name</u>	<u>Federal CFDA Number</u>	<u>Agency Pass-Through Number</u>	<u>Total Federal Expenditures</u>
United States Department of Housing and Urban Development:			
Iowa Department of Economic Development Community Development Block Grant Sewer improvement project	14.228	08-WS-071	<u>\$ 209,614</u>
United States Environmental Protection Agency Iowa Department of Economic Development Capitalization Grants for Clean Water State Revolving Funds - ARRA	66.458		<u>\$ 916,880</u>
Total federal expenditures			<u><u>\$ 1,126,494</u></u>

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

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, 2011, which collectively comprise the City of Stuart, Iowa's basic financial statements and have issued our report thereon dated January 19, 2012. 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.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

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. We consider the deficiencies described in the accompanying schedule of findings as 2011-II-C to be material weaknesses.

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. We consider the deficiencies described in the accompanying schedule of findings as 2011-II-A and 2011-II-B to be significant deficiencies.

### 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, 2011, 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.

We noted certain other matters that we reported to management of the City of Stuart, Iowa, in a separate letter dated January 19, 2012.

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 19, 2012

REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO  
EACH MAJOR PROGRAM AND ON INTERNAL CONTROL OVER  
COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

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

Compliance

We have audited the compliance of City of Stuart, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to each of its major federal programs for the year ended June 30, 2011. City of Stuart, Iowa's major federal programs are identified in the summary of auditor's results section of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts, and grant applicable to each of its major federal programs is the responsibility of the City of Stuart, Iowa's management. Our responsibility is to express an opinion on the City of Stuart, Iowa's compliance based on our audit.

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

In our opinion, City of Stuart, Iowa, complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2011.

## Internal Control Over Compliance

Management of City of Stuart, Iowa, is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts, and grants applicable to federal programs. In planning and performing our audit, we considered City of Stuart Iowa's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of City of Stuart, Iowa's internal control over compliance.

Our consideration of internal control over compliance was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over compliance that might be significant deficiencies or material weaknesses and therefore, there can be no assurance that all deficiencies, significant deficiencies, or material weaknesses have been identified. However, as discussed below, we identified certain deficiencies in internal control over compliance that we consider to be material weaknesses and other deficiencies that we consider to be significant deficiencies.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A material weakness in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis.

A significant deficiency in internal control over compliance is a deficiency, or a combination of deficiencies in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance. We consider the deficiencies in internal control over compliance described in the accompanying Schedule of Findings and Questioned Costs as items 2011-III-A to be significant deficiency.

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

This report is intended solely for the information and use of management, City Council, others within the entity, 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, Smidgrasso, Mitchell + Co., P.C.*

January 19, 2012

CITY OF STUART, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

PART 1. SUMMARY OF THE INDEPENDENT AUDITOR'S RESULTS

- a. An unqualified opinion was issued on the financial statements.
- b. Significant deficiencies in internal control over financial reporting were reported by the audit of the financial statements and material weaknesses were reported.
- c. The audit did not disclose any noncompliance which is material to the financial statements.
- d. Significant deficiencies in internal control over major programs were reported by the audit of the financial statements and no material weaknesses were reported.
- e. An unqualified opinion was issued on compliance with requirements applicable to each major program.
- f. The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133 Section 510(a).
- g. Major programs were as follows:
  - CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds
- h. The dollar threshold used to distinguish between type a and type b programs was \$300,000.
- i. City of Stuart, Iowa did not qualify as a low risk auditee.

PART II. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2011-II-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 acknowledged.

CITY OF STUART, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

2011-II-B Payment of credit card charges from statement: The City on occasion uses a credit card or charge account to order items or to charge for services to be used by the Organization. A monthly statement is then received with the charges listed for that period. The receipts are then compared to the listed charges for propriety and accuracy. However, during our audit, a credit card or charge account statement was paid without any of the detailing charge receipts attached to support the charges for the period as to City business.

Recommendation: We recommend that to support the charges on the credit card or charge account for the period are properly for City business that the supporting charge receipts and other supporting information be attached to the statement prior to approval for payment.

Response: We will attach receipts to the statements.

Conclusion: Response acknowledged.

2011-II-C Payment of invoices: During our audit, we discovered that a payment to a vendor was made from an original quote for services rather than from the actual invoice rendered for the services provided. As a result, the vendor was over paid for the service provided to the City.

Recommendation: We recommend that the City implement controls that only payments to vendors are only made from original invoices submitted by vendors and not from quotes for services as that may not be the same as submitted for the actual services provided and documented on the invoice. The invoice then should be marked as paid to avoid the invoice being paid a second time.

Response: We will establish controls for implementation.

Conclusion: Response acknowledged.

PART III. FINDINGS AND QUESTIONED COSTS FOR FEDERAL AWARDS

Instances of Noncompliance

No matters were reported.

CITY OF STUART, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

Significant Deficiencies:

2011-III-A Segregation of Duties: A limited number of people have the primary responsibility for most of the account 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 Organization. See audit finding 2011-II-A.

PART IV. Other Findings Related to Required Statutory Reporting:

2011-IV-1 Certified Budget: Disbursements during the year ended June 30, 2011 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 comply with the Code of Iowa.

Conclusion: Response acknowledged.

2011-IV-2 Questionable Disbursements: Certain disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 since the public benefits to be derived have not been clearly documented were noted. These disbursements are detailed as follows:

<u>Paid to</u>	<u>Purpose</u>	<u>Amount</u>
Lincolns Lounge	Rescue unit Christmas party	\$ 584

According to the opinion, it is possible for such disbursements to meet the test of serving a public purpose under certain circumstances, although such items will certainly be subject to a deserved close scrutiny. The line to be drawn between a proper and an improper purpose is very thin.

Recommendation: The Council should determine and document the public purpose served by these disbursements before authorizing any further payments. If this practice is continued, the City should establish written policies and procedures, including the requirements for proper documentation.

CITY OF STUART, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

Response: Procedures will be established to not allow this type of disbursement.

Conclusion: Response acknowledged.

2011-IV-3 Travel Expense: No expenditures of the City of Stuart, Iowa's money for travel expenses of spouses of the City of Stuart, Iowa's Water Works' or officials or employees were noted.

2011-IV-4 Business Transactions: We noted no business transactions between the City of Stuart, Iowa and the City of Stuart, Iowa officials or employees.

2011-IV-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 insure that the coverage is adequate for current operations.

2011-IV-6 Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

The Council minutes were maintained, however during the review of those minutes, several were not properly signed as required by Chapter 380.7 of the Code of Iowa.

Recommendation: All minutes of meetings should be properly signed as required by Chapter 380.7 of the Code of Iowa.

Response: We will maintain signed minutes.

Conclusion: Response acknowledged.

2011-IV-7 Revenue Bonds: The City of Stuart, Iowa has complied with the provisions of the revenue bond indentures.

2011-IV-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.

2011-IV-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."

CITY OF STUART, IOWA  
SCHEDULE OF FINDINGS AND QUESTIONED COSTS  
Year Ended June 30, 2011

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

DRAPER, SNODGRASS, MIKKELSEN & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

MEMBERS - IOWA SOCIETY OF CPAs  
AMERICAN INSTITUTE OF CPAs

FAX (641) 782-8423

PHONE (641) 782-8421 — P.O. Box 71  
309 EAST MONTGOMERY STREET  
CRESTON, IOWA 50801

January 19, 2012

To the Members of the City Council  
City of Stuart  
Stuart, Iowa

In planning and performing our audit of the financial statements of the City of Stuart, Iowa, for the year ended June 30, 2011, in accordance with U.S. generally accepted auditing standards, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing an opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A reportable condition 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 misstatements on a timely basis. A material weakness is a control deficiency, or a combination of control deficiencies, that adversely affects the City'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 likelihood that a misstatement of the City's financial statements that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a reportable condition, or a combination of reportable conditions, that result in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the City's internal control.

Our consideration of internal control was for the limited purpose described in the first paragraph and would not necessarily identify all reportable conditions in internal control that might be significant or material weaknesses.

However, during our audit we became aware of matters that are opportunities for strengthening internal controls and operating efficiency. The memorandum that accompanies this letter summarizes our comments and suggestions regarding those matters.

This communication is intended solely for the information and use of management, the finance committee, the City council, and others within the City, and is not intended to be and should not be used by anyone other than these specified parties.

Sincerely,

*Draper, Snodgrass, Mikkelsen & Co., P.C.*

Draper, Snodgrass, Mikkelsen & Co., P.C.

CITY OF STUART, IOWA  
MANAGEMENT LETTER MEMORANDUM

A. Reimbursement of Employee Travel Expenses

We noted during our audit that employee expenses submitted for reimbursement were not always submitted in a consistent manner. The documentation should include the date of the expense or travel, expense amount or mileage and the business purpose of the expense. These should be documented on a expense reporting form approved by the Council for uniform reporting and approval of allowed travel and expenses. Receipts for those expenses should also be attached with the report. The expense report should be reviewed and approved by management prior to submitting the claim for reimbursement.

We recommend that the City adopt a travel and expense policy requiring employees to submit all reimbursable expenses with proper documentation as outlined above for review and approval prior to reimbursement.