STUART MUNICIPAL UTILITIES

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

Year Ended June 30, 2011

STUART MUNICIPAL UTILITIES

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STUART MUNICIPAL UTILITIES

OFFICIALS

NAME	TITLE	TERM EXPIRES
Dave Fry	Chairman, Board of Trustees	January 1, 2014
Tom Moon	Member, Board of Trustees	January 1, 2013
Kristen Renslow	Member, Board of Trustees	January 1, 2017
Steve Gilman	Member, Board of Trustees	January 1, 2018
John Gulbranson	Member, Board of Trustee	January 1, 2018
Doug Christensen	Superintendent	
Ashraf Ashour	City Administrator	
Clint Hight	Utility Attorney	

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INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

We have audited the accompanying financial statements of the business type activities of the Stuart Municipal Utilities, as of and for the year ended June 30, 2011. These financial statements are the responsibility of Utilities officials. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Stuart Municipal Utilities as of June 30, 2011, and the changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued a report dated January 19, 2012, on our consideration of Stuart Municipal Utilities' internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

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

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the Stuart Municipal Utilities' basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial standards. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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

January 19, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The Stuart Municipal Utilities provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2011. We encourage readers to consider this information in conjunction with the Stuart Municipal Utilities financial statements, which follow.

Financial Highlights

The Stuart Municipal Utilities total water fund balance decreased by $1,338,450 from the previous fiscal year. This decrease is due to use of reserve to finish water projects. Electric fund balance increased by $1,108,179 from the previous fiscal year. This increase is due to financing a new electric project.

Using this Annual Report

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

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

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

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

Required supplementary information provides detailed information about the annual budget.

Basis of Accounting

The Stuart Municipal Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Stuart Municipal Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. The accounts of the Stuart Municipal Utilities are organized on the basis of funds, each of which is considered to be a separate accounting entity. The operations of each fund are accounted for by providing a separate set of self-balancing accounts which comprise its assets, liabilities, reserves, fund balance, receipts and disbursements.

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

Reporting the Stuart Municipal Utilities Financial Activities

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

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

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

Fund Financial Statements

The Stuart Municipal Utilities has one kind of fund:

- Proprietary funds account for the Stuart Municipal Utilities Enterprise Funds. The Stuart Municipal Utilities maintains two Enterprise Funds to provide separate information for the water and electric funds, considered to be major funds of the Stuart Municipal Utilities.

- The required financial statements for proprietary funds include a statement of cash receipts, disbursements and change in cash balances.

Government wide Financial Analysis

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

Business Type Activities

The Stuart Municipal Utilities water and electric total cash balance decreased by $230,271.

Business Type Activities

June 30, 2011

	Water	Electric	Total
Operating receipts:			
Charge for service	$ 556,913	$ 1,736,023	$ 2,292,936
Operating disbursements:			
Business type activities	$ 510,027	$ 1,530,665	$ 2,040,692
Excess (deficiency) of operating receipts over (under) operating disbursements	$ 46,886	$ 205,358	$ 252,244
Total non-operating receipts (disbursements):	$(1,385,336)	$ 902,821	$ (482,515)
Net change in cash balances	$(1,338,450)	$ 1,108,179	$ (230,271)
Cash balances beginning of year	1,621,271	1,471,633	3,092,904
Cash balances end of year	$ 282,821	$ 2,579,812	$ 2,862,633

Business Type Activities

June 30, 2010

	Water	Electric	Total
Operating receipts:			
Charge for service	$ 539,511	$ 1,680,138	$ 2,219,649
Operating disbursements:			
Business type activities	$ 493,981	$ 1,812,770	$ 2,306,751
Excess (deficiency) of operating receipts over (under) operating disbursements	$ 45,530	$ (132,632)	$ (87,102)

Total non-operating receipts (disbursements):	$ (260,025)	$ 125,831	$ (134,194)
Net change in cash balances	$ (214,495)	$ (6,801)	$ (221,296)
Cash balances beginning of year	1,835,766	1,478,434	3,314,200
Cash balances end of year	$1,621,271	$ 1,471,633	$ 3,092,904

Budgetary Highlights

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

Individual Major Business Type Fund Analysis

- Water fund cash balance decreased by $1,338,450 due to use of reserve.
- Electric fund cash balance increased by $1,108,179 due to financing of an electric project.

Debt Administration

At year end, the Stuart Municipal Utilities had approximately $3,450,000 in bonds as compared to $3,855,000 the last fiscal year.

Economic Factors and Next Year's Budget and Rates

The Stuart Municipal Utility Board considers many factors when setting the 2012 fiscal year budget. The Board is involved in providing for a new 2500 KW Caterpillar Generator.

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

These factors all contributed when adopting the fiscal year 2012 budget. The budget includes all business type activities, including water and electric expenditures. Steps implemented by the Stuart Board of Trustees, while taking into account increased costs of employee benefits, low returns on investments and the need to keep services at an acceptable level were also a factor in the year 2012 fiscal year budget.

Contacting the Stuart Municipal Utilities' Financial Management

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the Stuart Municipal Utilities' finances and to show the Utilities' accountability for the money it receives. If you have questions about this report or need additional financial information, contact Ashraf Ashour, City Administrator, 119 E. Front Street, Stuart, Iowa 50250.

FINANCIAL STATEMENTS

STUART MUNICIPAL UTILITIES
STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
Year Ended June 30, 2011

Exhibit A

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/programs:			
Business type activities:			
Water	$ 2,088,762	$ 556,913	$ -
Electric	2,423,124	1,736,023	-
Total business type activities	$ 4,511,886	$ 2,292,936	$ -
General receipts:			
Interest on investments			
Miscellaneous			
Bond proceeds			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			

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

Program Receipts	Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets
Capital Grants, Contributions, and Restricted Interest	Business Type Activities
$ -	$ (1,531,849)
-	(687,101)
$ -	$ (2,218,950)
	$ 74,823
	78,946
	1,834,910
	$ 1,988,679
	$ (230,271)
	3,092,904
	$ 2,862,633

STUART MUNICIPAL UTILITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2011

Exhibit B

	Enterprise Fund		
	Water	Electric	Total
OPERATING RECEIPTS:			
Charge for service	$ 556,913	$ 1,736,023	$ 2,292,936
TOTAL OPERATING RECEIPTS	$ 556,913	$ 1,736,023	$ 2,292,936
OPERATING DISBURSEMENTS:			
Business type activities	$ 510,027	$ 1,530,665	$ 2,040,692
TOTAL OPERATING DISBURSEMENTS	$ 510,027	$ 1,530,665	$ 2,040,692
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	$ 46,886	$ 205,358	$ 252,244
NON-OPERATING RECEIPTS (DISBURSEMENTS):			
Interest on investments	$ 53,669	$ 21,154	$ 74,823
Miscellaneous	1,795	77,151	78,946
Bond proceeds	-	1,834,910	1,834,910
Debt service	(1,578,735)	(892,459)	(2,471,194)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	$ (1,523,271)	$ 1,040,756	$ (482,515)
EXCESS/(DEFICIENCY) OF RECEIPTS OVER/(UNDER) DISBURSEMENTS	$ (1,476,385)	$ 1,246,114	$ (230,271)
OPERATING TRANSFERS	137,935	(137,935)	-
NET CHANGE IN CASH BALANCES	$ (1,338,450)	$ 1,108,179	$ (230,271)
CASH BALANCES BEGINNING OF YEAR	1,621,271	1,471,633	3,092,904
CASH BALANCES END OF YEAR	$ 282,821	$ 2,579,812	$ 2,862,633
CASH BASIS FUND BALANCES:			
Reserved for bond reserve funds	$ 269,741	$ -	$ 269,741
Reserved for improvements	-	12,010	12,010
Reserved for insurance	-	113,193	113,193
Reserved for customer deposits	-	36,971	36,971
Reserved for insufficient checks	-	7,303	7,303
Unreserved	13,080	2,410,335	2,423,415
TOTAL CASH BASIS FUND BALANCES	$ 282,821	$ 2,579,812	$ 2,862,633

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

Note 1. SIGNIFICANT ACCOUNTING POLICIES

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

Reporting Entity:

The financial statements include all funds of the Stuart Municipal Utilities. The Utilities has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the Utilities are such that exclusion would cause the Utilities' financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Utilities to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the Utilities.

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

Basis of Presentation:

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

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

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

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

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

Fund Financial Statements – Separate financial statements are provided for proprietary funds. Major individual enterprise funds are reported as separate columns in the fund financial statements.

The Utilities reports the following major proprietary funds:

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

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

Basis of Accounting:

The Utilities maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Utilities are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

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

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The budget is prepared based on functions of which the Utilities is part of the business type activities function of the City of Stuart, Iowa. The business type function budget total for the year was exceeded prior to amendment.

Cash and Time Deposits:

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

Restricted Assets:

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

Note 2. DEPOSITS AND INVESTMENTS

The Utilities' deposits at June 30, 2011, were entirely covered by Federal Depository Insurance, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the members of the pool to insure there will be no loss of public funds.

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

The Utilities' investments are categorized to give an indication of the level of risk assumed by the Utilities at year-end. The Utilities' investment at June 30, 2011, consisted of Certificates of Deposits and is not subject to risk categorization.

Note 3. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 4.50% of their annual salary and the Utility is required to contribute 6.95% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2011, 2010, and 2009 were $21,689, $19,803 and $17,322 respectively, equal to the required contributions for each year.

Note 4. CAPITAL LOAN NOTES

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

Year Ending June 30,	Principal Capital Loan Notes	Interest Capital Loan Notes
2012	$ 245,000	$ 119,641
2013	250,000	113,865
2014	260,000	107,561
2015	270,000	100,422
2016	250,000	92,562
2017-2021	1,380,000	327,853
2022-2024	795,000	59,554
	$3,450,000	$ 921,458

Note 4. CAPITAL LOAN NOTES (continued)

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

a. The notes will only be redeemed from the future net earnings of the municipal water utility and the noteholders hold a lien on the future earnings of the funds.c

b. Sufficient monthly transfers shall be made to a separate Sinking Fund for the purpose of making the note principal and interest payments when due.

c. Additional monthly transfers shall be made to a Reserve Fund until a specific minimum balance has been accumulated. This fund shall be used solely for paying principal and interest when the sinking fund balance is insufficient.

d. A separate Improvement Fund for Water Revenue shall be established requiring monthly deposits until a minimum of $15,000 is accumulated. This fund is restricted for the purpose of paying for extraordinary maintenance and repairs and capital improvements to the system or for note and interest payments which the other funds might be unable to make.

Note 5. COMPENSATED ABSENCES

Utility employees accumulate a limited amount of earned but unused vacation for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the Utility until used or paid. The Utilities' approximate liability for earned vacation payments payable to employees at June 30, 2011, is as follows:

Type of Benefit	Amount
Vacation	$17,585

This liability has been computed based on rates of pay as of June 30, 2011. Sick leave is payable when used. The Utility allows employees to carry over a limited number of unused sick leave hours for subsequent use but does not pay employees for unused hours held upon separation from service.

Note 6. RISK MANAGEMENT

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

Note 7. MAJOR CUSTOMER

A material part of the Utility's water charges for services revenue is from one major customer. During the year ended June 30, 2011, this customer accounted for approximately 26% of the Utility's water revenue.

A material part of the Utility's electric charges for services revenue is from five major customers. The loss of any one of these customers may not have a materially adverse effect on the Utility, however, the loss of any combination of these major customers could have a materially adverse effect on the Utility. During the year ended June 30, 2011, these customers accounted for approximately 19% of Utility's electric revenue.

Note 8. SUBSEQUENT EVENT

In November 2011, the Utility Board approved the purchase of a generator for $97,917 for the electric plant.

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

REQUIRED SUPPLEMENTARY INFORMATION

STUART MUNICIPAL UTILITIES
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - ACTUAL TO BUDGET
Year Ended June 30, 2011

	Actual	Less Funds not Required to be Budgeted
RECEIPTS:		
Use of money and property	$ 74,823	$ -
Charges for services	2,292,936	-
Miscellaneous	78,946	-
Total receipts	$ 2,446,705	$ -
DISBURSEMENTS:		
Business type activities:		
Electric	$ 2,423,124	$ -
Water	2,088,762	-
Total disbursements	$ 4,511,886	$ -
EXCESS/(DEFICIENCY) OF RECEIPTS OVER/ (UNDER) DISBURSEMENTS	$ (2,065,181)	$ -
OTHER FINANCING SOURCES:		
Bond proceeds	1,834,910	-
Transfers	-	-
EXCESS/(DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER/(UNDER) DISBURSEMENTS	$ (230,271)	$ -
BALANCE, beginning of year	3,092,904	-
BALANCE, end of year	$ 2,862,633	$ -

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

Net	Budgeted Amounts Original	Budgeted Amounts Final	Final To Net
$ 74,823	$ -	$ -	$ 74,823
2,292,936	2,108,176	2,108,176	184,760
78,946	-	-	78,946
$ 2,446,705	$ 2,108,176	$ 2,108,176	$ 338,529
$ 2,423,124	$ 1,433,646	$ 3,629,990	$ 1,206,866
2,088,762	667,030	835,686	(1,253,076)
$ 4,511,886	$ 2,100,676	$ 4,465,676	$ (46,210)
$ (2,065,181)	$ 7,500	$ (2,357,500)	$ 292,319
1,834,910	-	-	1,834,910
-	-	-	-
$ (230,271)	$ 7,500	$ (2,357,500)	$ 2,127,229
3,092,904			
$ 2,862,633			

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

The Utilities' budget is submitted with the City of Stuart's budget. Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Utilities' budget is included in the business type activities function. During the year, one budget amendment for the Utilities increased budgeted disbursements by $2,365,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceed the amounts budgeted in the business type activities prior to amendment.

OTHER SUPPLEMENTARY INFORMATION

STUART MUNICIPAL UTILITIES
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2011

Schedule 1

OBLIGATION	Date of Issue	Interest Rate	Amount Originally Issued
Water Revenue Capital Loan Notes	5-1-2001	4.10-5.40	$ 1,830,000
Electric Revenue Capital Loan Notes	10-1-2003	2.05-4.45	$ 385,000
Electric Revenue Refunding Capital Loan Notes	10-15-2005	3.55-4.05	$ 880,000
Water Revenue Capital Loan Notes	12-1-2007	3.75-4.55	$ 2,000,000
Electric Revenue Improvement Capital Loan Notes	12-30-2010	.95-4.05	$ 1,875,000

See accompanying independent auditor's report.

Balance Beginning Of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
$ 1,200,000	$ -	$ 1,200,000	$ -	$ 63,688	$ -
190,000	-	190,000	-	6,785	-
750,000	-	750,000	-	28,940	-
1,715,000	-	105,000	1,610,000	71,665	-
-	1,875,000	35,000	1,840,000	8,870	-
$ 3,855,000	$ 1,875,000	$ 2,280,000	$ 3,450,000	$ 179,948	$ -

STUART MUNICIPAL UTILITIES
NOTE MATURITIES
Year Ended June 30, 2011

Schedule 2

	CAPITAL LOAN NOTES				
	Water Revenue		Electric Revenue		
Year	Issued December 1, 2001		Issued December 30, 2010		Total
Ending	Interest		Interest		Capital
June 30,	Rates	Amount	Rates	Amount	Loan Notes
2012	3.90%	$ 105,000	4.20%	$ 140,000	$ 245,000
2013	3.95%	110,000	1.40%	140,000	250,000
2014	4.00%	115,000	1.75%	145,000	260,000
2015	4.05%	120,000	2.00%	150,000	270,000
2016	4.10%	125,000	2.30%	125,000	250,000
2017	4.15%	130,000	2.65%	125,000	255,000
2018	4.20%	135,000	2.90%	130,000	265,000
2019	4.25%	140,000	3.25%	135,000	275,000
2020	4.30%	145,000	3.50%	140,000	285,000
2021	4.35%	155,000	3.65%	145,000	300,000
2022	4.40%	160,000	3.80%	150,000	310,000
2023	4.45%	170,000	3.95%	155,000	325,000
2024		-	4.05%	160,000	160,000
		$ 1,610,000		$ 1,840,000	$ 3,450,000

See accompanying independent auditor's report

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

We have audited the financial statements of the business-type activities of the Stuart Municipal Utilities, as of and for the year ended June 30, 2011, which collectively comprise the Stuart Municipal Utilities' basic financial statements and have issued our report thereon dated January 19, 2012. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section 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-B 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-A to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Stuart Municipal Utilities' financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Utilities' operations for the year ended June 30, 2011, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Utilities. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

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

January 19, 2012

STUART MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended June 30, 2011

SIGNIFICANT DEFICIENCIES:

2011-A Segregation of Duties – One important aspect of the internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

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

Response – We will consider this.

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

2011-B 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 Utilities.

Recommendation – We recommend that the Utilities 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 implement controls as recommended.

Conclusion – Response acknowledged.

OTHER FINDINGS RELATED TO STATUTORY REPORTING:

2011-1 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 requirements of the Code of Iowa.

Conclusion – Response acknowledged.

2011-2 Questionable Disbursements – We noted no disbursements that would not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

2011-3 Travel Expense – No disbursements of the Stuart Municipal Utilities' money for travel expenses of spouses of Utilities' officials or employees were noted.

2011-4 Business Transactions – No business transactions between the Stuart Municipal Utilities and Utilities' officials or employees were noted.

2011-5 Bond Coverage – Surety bond coverage of Stuart Municipal Utilities officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

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

The Trustee 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.

2011-7 Revenue Bonds – The Utilities has complied with the provisions of the revenue bond indentures.

2011-8 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and Stuart Municipal Utilities' investment policy were noted.

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

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January 19, 2012

To the Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

In planning and performing our audit of the financial statements of the Stuart Municipal Utilities, for the year ended June 30, 2011, in accordance with U.S. generally accepted auditing standards, we considered the Utilities' 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 Utilities' internal control. Accordingly, we do not express an opinion on the effectiveness of the Utilities' 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 Utilities' ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a likelihood that a misstatement of the Utilities' financial statements that is more than inconsequential will not be prevented or detected by the Utilities' 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 Utilities' 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 Utilities council, and others within the Utilities, 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.

STUART MUNICIPAL UTILITIES
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 Board 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 Utilities 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.