

CITY OF STUART
SEWER FUNDS

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

Year Ended June 30, 2012

CITY OF STUART
SEWER FUNDS
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CITY OF STUART
OFFICIALS

<u>Name</u>	<u>Title</u> (Before January 2012)	<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
(After January 2012)		
Dick Cook	Mayor	January 2014
Bryan Beldon	Mayor Pro tem	January 2014
Wade Chafa	Council Member	January 2016
James Morgan	Council Member	January 2016
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, Sewer Funds
Stuart, Iowa

We have audited the accompanying financial statements of the business type activities of the Sewer Enterprise Funds of the City of Stuart, Iowa, as of and for the year ended June 30, 2012. These financial statements are the responsibility of the City's officials. Our responsibility is to express an opinion on these financial statements based on our audit.

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

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

In our opinion, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the business type activities of the Sewer Enterprise Funds of the City of Stuart, Iowa, as of June 30, 2012, 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 9, 2013, on our consideration of the Sewer Enterprise Funds of the City of Stuart, Iowa's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grants and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 7 and 16 through 17 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We applied limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that comprise the Sewer Enterprise Funds of the City of Stuart, Iowa's basic financial statements. Other supplementary information included in Schedules 1 through 2, is presented for purposes of additional analysis and is not a required part of the basic financial standards. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the aforementioned financial statements taken as a whole.

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

January 9, 2013

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stuart (Sewer Fund) provides this Management's Discussion and Analysis of its financial statements. The narrative overview and analysis of the financial activities is for the fiscal year ending June 30, 2012. We encourage readers to consider this information in conjunction with the Stuart City of Stuart (Sewer Fund) financial statements, which follow.

Financial Highlights

The City of Stuart (Sewer Funds) total sewer fund balance decreased by \$205,626 from the previous fiscal year. This decrease is due to use of reserve for sewer 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 City of Stuart (Sewer Funds) financial activities.

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

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

Required supplementary information provided detailed information about the annual budget.

Basis of Accounting

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

Accordingly, the financial position and results of operations of the funds 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 City of Stuart (Sewer Funds) Financial Activities

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

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

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

Fund Financial Statements

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

- Proprietary funds account for the City of Stuart (Sewer Funds) Enterprise Funds. The City of Stuart (Sewer Funds) maintains one Enterprise Fund to provide separate information for the Sewer Funds, considered to be major funds of the City of Stuart (Sewer Funds).
- The required financial statements for proprietary funds include a statement of cash receipts, disbursements and change in cash balances.

Government wide Financial Analysis

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

Business Type Activities

The City of Stuart (Sewer Funds) total cash balance decreased by \$205,626.

Business Type Activities

	<u>Sewer</u>		<u>6-30-2012</u>	<u>6-30-2011</u>
Operating receipts:				
Charge for service			\$ 356,964	\$ 344,998
Operating disbursements:				
Business type activities			<u>599,632</u>	<u>1,771,330</u>
Excess (deficiency) of operating receipts over/(under) operating disbursements			\$(242,668)	\$(1,426,332)
Total non-operating receipts (disbursements):			(145,361)	1,056,204
Bond proceeds			<u>182,403</u>	<u>979,997</u>
Net change in cash balances			\$(205,626)	\$ 609,869
Cash balances beginning of year			<u>945,161</u>	<u>335,292</u>
Cash balances end of year			<u>\$ 739,535</u>	<u>\$ 945,161</u>

Budgetary Highlights

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

Individual Major Business Type Fund Analysis

Sewer fund balance decreased by \$205,626 due to use of reserve.

Debt Administration

At year end, the City of Stuart (Sewer Funds) had approximately \$1,788,000 in bonds.

Economic Factors and Next Year's Budget and Rates

The City Council considers many factors when setting the 2013 fiscal year budget. Items of importance to the City Council are return on investments, the cost of employee benefits and improvement to the existing sewer system.

These factors all contributed when adopting the fiscal year 2013 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 2013 fiscal year budget.

Contacting the City of Stuart Financial Management

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

FINANCIAL STATEMENTS

CITY OF STUART - SEWER FUNDS
 STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
 Year Ended June 30, 2012

Exhibit A

		Program Receipts	
	Disbursements	Charges for Service	Operating Grants, Contributions, and Restricted Interest
Functions/programs:			
Business type activities			
Sewer	\$ 753,841	\$ 356,964	\$ -
Total business type activities	\$ 753,841	\$ 356,964	\$ -
General receipts:			
Interest on investments			
Bond/note proceeds			
Miscellaneous			
Total general receipts			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash basis net assets			
Restricted:			
Expendable:			
Debt service			
Other purposes			
Unrestricted			

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

<u>Program Receipts</u> Capital Grants, Contributions, and Restricted Interest	<u>Net (Disbursements/ Receipts and Changes in Cash Basis Net Assets</u>
	<u>Business Type Activities</u>
\$ 7,052	\$ (389,825)
<u>\$ 7,052</u>	<u>\$ (389,825)</u>
	\$ 1,767
	182,403
	<u>29</u>
	<u>\$ 184,199</u>
	\$ (205,626)
	<u>945,161</u>
	<u>\$ 739,535</u>
	\$ 74,038
	100,005
	<u>565,492</u>
	<u>\$ 739,535</u>

CITY OF STUART - SEWER FUNDS
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2012

	Exhibit B Enterprise Fund
OPERATING RECEIPTS:	
Charge for service	\$ 356,964
TOTAL OPERATING RECEIPTS	\$ 356,964
OPERATING DISBURSEMENTS:	
Business type activities	\$ 599,632
TOTAL OPERATING DISBURSEMENTS	\$ 599,632
EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS	\$ (242,668)
NON-OPERATING RECEIPTS (DISBURSEMENTS):	
Intergovernmental	\$ 7,052
Uses of money and property	1,767
Miscellaneous	29
Debt service	(154,209)
TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS)	\$ (145,361)
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (388,029)
OTHER FINANCING SOURCES (USES):	
Bond/note proceeds	\$ 182,403
Operating transfers in	-
Operating transfers out	-
TOTAL OTHER FINANCING SOURCES (USES):	\$ 182,403
NET CHANGE IN CASH BALANCES	\$ (205,626)
CASH BALANCES BEGINNING OF YEAR	945,161
CASH BALANCES END OF YEAR	\$ 739,535
CASH BASIS FUND BALANCES:	
Reserved for debt service	\$ 74,038
Reserved for capital replacement	100,005
Unreserved	565,492
TOTAL CASH BASIS FUND BALANCES	\$ 739,535

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

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Stuart is a political subdivision of the State of Iowa located in Adair and Guthrie Counties. It was first incorporated in 1876 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and council members elected on a nonpartisan basis. The City provides numerous services to citizens including public safety, public works, culture, recreation, public improvements and general administrative services.

Reporting Entity:

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

Basis of Presentation:

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

The Statement of Activities and Net Assets presents the Sewer Enterprise Funds' nonfiduciary net assets. Net assets are reported in 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.

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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

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

The Sewer Enterprise Funds reports the following major proprietary funds:

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

Basis of Accounting:

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

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

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Budgets and Budgetary Accounting:

The budgetary comparison and related disclosures are reported as Required Supplementary Information. The budget is prepared based on functions of which the Sewer Enterprise Fund is part of the Business Type Activities Function. The Function budget total for the year was not exceeded.

Cash and Time Deposits:

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

Restricted Assets:

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

Note 2. DEPOSITS AND INVESTMENTS

The Sewer Funds' deposits at June 30, 2012, were entirely covered by Federal depository insurance, or by a multiple financial institution collateral pool in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 2. DEPOSITS AND INVESTMENTS (continued)

The City of Stuart's investments are categorized to give an indication of the level of risk assumed by the City at year-end. The City's investments at June 30, 2012, consisted of certificates of deposit and are not subject to risk categorization.

Note 3. PENSION AND RETIREMENT BENEFITS

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

Plan members are required to contribute 5.38% of their annual salary and the City is required to contribute 8.07% of annual covered payroll. Contribution requirements are established by State statute. The City's contribution for Sewer Funds to IPERS for the year ended June 30, 2012, 2011 and 2010 was \$4,273, \$2,893, and \$2,279 respectively, equal to the required contributions for each year.

Note 4. LOANS NOTES PAYABLE

Year Ending			
<u>June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2013	\$ 126,000	\$ 56,653	\$ 182,653
2014	131,000	53,118	184,118
2015	131,000	49,450	180,450
2016	142,000	45,333	187,333
2017	147,000	40,873	187,873
2018-2022	611,000	128,419	739,419
2023-2027	396,000	52,140	448,140
2028-2031	<u>104,000</u>	<u>5,730</u>	<u>109,730</u>
	<u>\$1,788,000</u>	<u>\$431,716</u>	<u>\$2,219,716</u>

Sewer Revenue Notes

The resolution providing for the issuance of the sewer revenue notes includes the following provisions.

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 4. LOAN NOTES PAYABLE (continued)

- 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.
- 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.

Note 5. COMPENSATED ABSENCES

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

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	<u>\$ 1,613</u>

This liability has been computed based on rates of pay as of June 30, 2012. Sick leave is payable when used. The City allows employees to carry over a limited number of unused sick leave hours for subsequent use but does not pay employees for unused hours held upon separation from service.

CITY OF STUART
SEWER FUNDS
NOTES TO FINANCIAL STATEMENTS
June 30, 2012

Note 6. RISK MANAGEMENT

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

Note 7. SUBSEQUENT EVENTS

Management has evaluated subsequent events through January 9, 2013, the date on which the financial statements were available to be issued.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF STUART
SEWER FUNDS
BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
AND CHANGES IN BALANCES - ACTUAL TO BUDGET (CASH BASIS)
Year Ended June 30, 2012

	<u>Actual</u>	<u>Less Funds not Required to be Budgeted</u>
RECEIPTS:		
Use of money and property	\$ 1,767	\$ -
Intergovernmental	7,052	-
Charges for services	356,964	-
Miscellaneous	29	-
Total receipts	<u>\$ 365,812</u>	<u>\$ -</u>
DISBURSEMENTS:		
Business type activities:		
Sewer	<u>\$ 753,841</u>	<u>\$ -</u>
Total disbursements	<u>\$ 753,841</u>	<u>\$ -</u>
EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS	\$ (388,029)	\$ -
OTHER FINANCING SOURCES		
Bond proceeds	182,403	-
Transfers	<u>-</u>	<u>-</u>
EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES	\$ (205,626)	\$ -
BALANCE, beginning of year	<u>945,161</u>	<u>-</u>
BALANCE, end of year	<u><u>\$ 739,535</u></u>	<u><u>\$ -</u></u>

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

Net	Budgeted Amounts		Final To Net
	Original	Final	
\$ 1,767	\$ -	\$ -	\$ 1,767
7,052	-	-	7,052
356,964	992,000	992,000	(635,036)
29	-	-	29
<u>\$ 365,812</u>	<u>\$ 992,000</u>	<u>\$ 992,000</u>	<u>\$ (626,188)</u>
\$ 753,841	\$ 750,000	\$ 1,650,000	\$ 896,159
<u>\$ 753,841</u>	<u>\$ 750,000</u>	<u>\$ 1,650,000</u>	<u>\$ 896,159</u>
\$ (388,029)	\$ 242,000	\$ (658,000)	\$ 269,971
182,403	-	-	182,403
-	-	-	-
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
\$ (205,626)	<u>\$ 242,000</u>	<u>\$ (658,000)</u>	<u>\$ 452,374</u>
<u>945,161</u>			
<u>\$ 739,535</u>			

CITY OF STUART
SEWER FUNDS
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2012

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. The Sewer Enterprise Fund budget is included in the business type activities function. During the year, one budget amendment for the Sewer Fund increased budgeted disbursements by \$900,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2012, disbursements did not exceed the amounts budgeted in the business type activities.

OTHER SUPPLEMENTARY INFORMATION

CITY OF STUART
SEWER FUNDS
STATEMENT OF INDEBTEDNESS
Year Ended June 30, 2012

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rate</u>	<u>Amount Originally Issued</u>
Revenue notes:			
Sewer	Sept 15, 2006	3.95-4.15%	\$ 230,000
Sewer - SRF	Dec 9, 2009	3.00%	1,060,000
Sewer - SRF	Feb 2, 2010	3.00%	263,000
Sewer	Dec 15, 2009	2.15-4.05%	710,000
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>
\$ 35,000	\$ -	\$ 35,000	\$ -	\$ 1,453
727,597	182,403	40,000	870,000	21,799
263,000	-	-	263,000	-
685,000	-	30,000	655,000	23,308
<u>#####</u>	<u>\$ 182,403</u>	<u>\$ 105,000</u>	<u>#####</u>	<u>\$ 46,560</u>

CITY OF STUART
SEWER FUNDS
BOND AND OTHER DEBT MATURITIES
Year Ended June 30, 2012

Schedule 2

Year Ending June 30,	Revenue Notes			
	Sewer State Revolving Loan Issued February 2, 2010		Sewer State Revolving Loan Issued December 9, 2009	
	Interest		Interest	
	Rates	Amount	Rates	Amount
2013	3.00	\$ 11,000	3.00	\$ 45,000
2014	3.00	11,000	3.00	45,000
2015	3.00	11,000	3.00	45,000
2016	3.00	12,000	3.00	50,000
2017	3.00	12,000	3.00	50,000
2018	3.00	12,000	3.00	50,000
2019	3.00	13,000	3.00	55,000
2020	3.00	13,000	3.00	55,000
2021	3.00	14,000	3.00	55,000
2022	3.00	14,000	3.00	60,000
2023	3.00	14,000	3.00	60,000
2024	3.00	15,000	3.00	60,000
2025	3.00	15,000	3.00	65,000
2026	3.00	16,000	3.00	65,000
2027	3.00	16,000	3.00	70,000
2028	3.00	17,000	3.00	40,000
2029	3.00	18,000		-
2030	3.00	18,000		-
2031	3.00	11,000		-
Total		\$ 263,000		\$ 870,000

See accompanying Independent Auditors' Report

Revenue Notes		
Sewer Revenue Notes		
Issued December 15, 2009		Total
Interest		Revenue
Rates	Amount	Notes
2.65	\$ 70,000	\$ 126,000
2.65	75,000	131,000
3.25	75,000	131,000
3.25	80,000	142,000
3.70	85,000	147,000
3.70	85,000	147,000
4.05	90,000	158,000
4.05	95,000	163,000
	-	69,000
	-	74,000
	-	74,000
	-	75,000
	-	80,000
	-	81,000
	-	86,000
	-	57,000
	-	18,000
	-	18,000
	-	11,000
	<u>\$ 655,000</u>	<u>\$ 1,788,000</u>

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

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

We have audited the financial statements of the business-type activities of Sewer Enterprise Fund of the City of Stuart, Iowa, as of and for the year ended June 30, 2012, which collectively comprise the Sewer Enterprise Fund of the City of Stuart, Iowa's basic financial statements and have issued our report thereon dated January 9, 2013. 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

Management of Sewer Enterprise Fund of the City of Stuart, Iowa, is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered Sewer Enterprise Fund of the City of Stuart, Iowa's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Sewer Enterprise Fund of the City of Stuart, Iowa's internal control over financial reporting. Accordingly we do not express an opinion on the effectiveness of the Sewer Enterprise Fund of the City of Stuart, Iowa's internal control over financial reporting.

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

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies, or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above. However, we identified certain deficiencies in internal control over financial reporting, described in the accompanying schedule of findings that we consider to be significant deficiencies in internal control over financial reporting. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the Sewer Enterprise Fund's operations for the year ended June 30, 2012, 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.

Sewer Enterprise Fund of the 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 Sewer Enterprise Fund of the City of Stuart, Iowa's response and, accordingly, we express no opinion on it.

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

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

January 9, 2013

CITY OF STUART
SEWER FUNDS
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

SIGNIFICANT DEFICIENCIES

2012-A Segregation of Duties – A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the Sewer Enterprise Funds of the City of Stuart, Iowa.

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

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

Conclusion – Response accepted.

OTHER FINDINGS RELATED TO REQUIRED STATUTORY REPORTING

2012-1 Certified Budget – Disbursements during the year ended June 30, 2012 did not exceed the amounts budgeted in the business type activities functions.

2012-2 Questionable Disbursements – We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979.

2012-3 Travel Expense – No disbursements of the Sewer Enterprise Funds of the City of Stuart, Iowa’s money for travel expenses of spouses of Sewer Enterprise Funds of the City of Stuart, Iowa’s officials or employees were noted.

2012-4 Business Transactions – We noted no business transactions between the Sewer Enterprise Funds of the City of Stuart, Iowa and the Sewer Enterprise Funds of the City of Stuart, Iowa’s officials or employees.

2012-5 Bond Coverage – Surety bond coverage of the Sewer Enterprise Funds of the City of Stuart, Iowa’s officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

CITY OF STUART
SEWER FUNDS
SCHEDULE OF FINDINGS
Year Ended June 30, 2012

- 2012-6 Board Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- 2012-7 Revenue Bonds – The Sewer Enterprise Funds of the City of Stuart, Iowa has complied with the provisions of the revenue bond indentures.
- 2012-8 Deposits and Investments – The Sewer Enterprise Funds of the City of Stuart, Iowa has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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