

STUART MUNICIPAL UTILITIES
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
COMMENTS AND RECOMMENDATIONS

Year Ended June 30, 2013

STUART MUNICIPAL UTILITIES

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STUART MUNICIPAL UTILITIES

OFFICIALS

| <u>NAME</u> | <u>TITLE</u> | <u>TERM EXPIRES</u> |
|------------------|-----------------------------|---------------------|
| Dave Fry | Chairman, Board of Trustees | January 1, 2014 |
| Dennis Morgan | 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 | |

INDEPENDENT AUDITOR'S REPORT

To the Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

Report on the Financial Statements

We have audited the accompanying financial statements of the business-type activities of Stuart Municipal Utilities as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Utilities' financial statements as listed in the Table of Contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting as described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the Utilities' preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Utilities' internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to prove a basis for our audit opinions.

Opinions

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, 2013, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than U.S. generally accepted accounting principles. Our opinion is not modified with respect to this matter.

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Stuart Municipal Utilities' financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the three years ended June 30, 2012 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 8 and 17 through 18 has not been subjected to the auditing procedures applied in our audit of the basic financial statement and, accordingly, we do not express an opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued a report dated January 17, 2014, on our consideration of Stuart Municipal Utilities' internal control over financial reporting and on 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 on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards in considering Stuart Municipal Utilities' internal control over financial reporting and compliance.

Dorpen, Smidgrass, Mitchell & Co., P.C.

January 17, 2014

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, 2013. 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 \$74,512 from the previous fiscal year. This decrease is due to use of reserve. Electric fund balance increased by \$279,942 from the previous fiscal year. This increase is due to increase of usage.

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 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.

Other 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 net position 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 net position.

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 receipts/disbursements-cash balanced increased by \$205,430.

Business Type Activities

June 30, 2013

| | <u>Water</u> | <u>Electric</u> | <u>Total</u> |
|--|---------------------|---------------------|---------------------|
| Operating receipts: | | | |
| Charge for service | \$ <u>589,291</u> | \$ <u>1,801,074</u> | \$ <u>2,390,365</u> |
| Operating disbursements: | | | |
| Business type activities | \$ <u>501,618</u> | \$ <u>1,424,157</u> | \$ <u>1,925,775</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | \$ <u>87,673</u> | \$ <u>376,917</u> | \$ <u>464,590</u> |
| Total non-operating receipts (disbursements): | \$ <u>(162,185)</u> | \$ <u>(96,975)</u> | \$ <u>(259,160)</u> |
| Net change in cash balances | \$ (74,512) | \$ 279,942 | \$ 205,430 |
| Cash balances beginning of year | <u>176,921</u> | <u>1,511,964</u> | <u>1,688,885</u> |
| Cash balances end of year | \$ <u>102,409</u> | \$ <u>1,791,906</u> | \$ <u>1,894,315</u> |

Business Type Activities

June 30, 2012

| | <u>Water</u> | <u>Electric</u> | <u>Total</u> |
|--|-------------------|---------------------|---------------------|
| Operating receipts: | | | |
| Charge for service | \$ <u>549,092</u> | \$ <u>1,757,471</u> | \$ <u>2,306,563</u> |
| Operating disbursements: | | | |
| Business type activities | \$ <u>488,728</u> | \$ <u>2,716,836</u> | \$ <u>3,205,564</u> |
| Excess (deficiency) of operating receipts over (under) operating disbursements | \$ <u>60,364</u> | \$ <u>(959,365)</u> | \$ <u>(899,001)</u> |

| | | | |
|--|-------------------|---------------------|---------------------|
| Total non-operating receipts (disbursements): | \$ (166,264) | \$ (108,483) | \$ (274,747) |
| Net change in cash balances | \$ (105,900) | \$(1,067,848) | \$(1,173,748) |
| Cash balances beginning of year | <u>282,821</u> | <u>2,579,812</u> | <u>2,862,633</u> |
| Cash balances end of year | <u>\$ 176,921</u> | <u>\$ 1,511,964</u> | <u>\$ 1,688,885</u> |

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 control 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 balance decreased by \$74,512 due to use of reserve.
- Electric fund balance increased by \$279,942 due to increase of usage.

Debt Administration

At year end, the Stuart Municipal Utilities had approximately \$2,955,000 in bonds as compared to \$3,205,000 the last fiscal year.

Economic Factors and Next Year's Budget and Rates

The Stuart Municipal Utility Board considers many factors when setting the 2014 fiscal year budget. The Board is involved in providing for new main projects.

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 2014 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 2014 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 POSITION - CASH BASIS
Year Ended June 30, 2013

Exhibit A

| | | Program Receipts | |
|---|---------------|---------------------|--|
| | Disbursements | Charges for Service | Operating Grants, Contributions, and Restricted Interest |
| Functions/programs: | | | |
| Business type activities | | | |
| Water | \$ 675,146 | \$ 589,291 | \$ - |
| Electric | 1,614,995 | 1,801,074 | - |
| | \$ 2,290,141 | \$ 2,390,365 | \$ - |
| Total business type activities | | | |
| General receipts: | | | |
| Interest on investments | | | |
| Miscellaneous | | | |
| Total general receipts | | | |
| Change in cash basis net position | | | |
| Cash basis net position beginning of year | | | |
| Cash basis net position end of year | | | |
| Cash basis net position | | | |
| Restricted: | | | |
| Expendable: | | | |
| Debt service | | | |
| Other | | | |
| Unrestricted | | | |
| Total cash basis net position | | | |

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 Position</u> Business Type Activities |
|--|---|
| \$ - | \$ (85,855) |
| - | <u>186,079</u> |
| <u>\$ -</u> | <u>\$ 100,224</u> |
| | \$ 6,951 |
| | <u>98,255</u> |
| | <u>\$ 105,206</u> |
| | \$ 205,430 |
| | <u>1,688,885</u> |
| | <u>\$ 1,894,315</u> |
| | \$ 269,874 |
| | 252,355 |
| | <u>1,372,086</u> |
| | <u>\$ 1,894,315</u> |

STUART MUNICIPAL UTILITIES
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
As of and for the Year Ended June 30, 2013

Exhibit B

| | Enterprise Fund | | |
|---|--------------------------|----------------------------|----------------------------|
| | Water | Electric | Total |
| OPERATING RECEIPTS: | | | |
| Charge for service | \$ 589,291 | \$ 1,801,074 | \$ 2,390,365 |
| TOTAL OPERATING RECEIPTS | <u>\$ 589,291</u> | <u>\$ 1,801,074</u> | <u>\$ 2,390,365</u> |
| OPERATING DISBURSEMENTS: | | | |
| Business type activities | \$ 501,618 | \$ 1,424,157 | \$ 1,925,775 |
| TOTAL OPERATING DISBURSEMENTS | <u>\$ 501,618</u> | <u>\$ 1,424,157</u> | <u>\$ 1,925,775</u> |
| EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS | <u>\$ 87,673</u> | <u>\$ 376,917</u> | <u>\$ 464,590</u> |
| NON-OPERATING RECEIPTS (DISBURSEMENTS): | | | |
| Interest on investments | \$ 3,257 | \$ 3,694 | \$ 6,951 |
| Miscellaneous | 8,086 | 90,169 | 98,255 |
| Debt service | (173,528) | (190,838) | (364,366) |
| TOTAL NON-OPERATING RECEIPTS (DISBURSEMENTS) | <u>\$ (162,185)</u> | <u>\$ (96,975)</u> | <u>\$ (259,160)</u> |
| EXCESS/(DEFICIENCY) OF RECEIPTS OVER/(UNDER) DISBURSEMENTS | <u>\$ (74,512)</u> | <u>\$ 279,942</u> | <u>\$ 205,430</u> |
| OPERATING TRANSFERS | <u>-</u> | <u>-</u> | <u>-</u> |
| NET CHANGE IN CASH BALANCES | <u>\$ (74,512)</u> | <u>\$ 279,942</u> | <u>\$ 205,430</u> |
| CASH BALANCES BEGINNING OF YEAR | <u>176,921</u> | <u>1,511,964</u> | <u>1,688,885</u> |
| CASH BALANCES END OF YEAR | <u><u>\$ 102,409</u></u> | <u><u>\$ 1,791,906</u></u> | <u><u>\$ 1,894,315</u></u> |
| CASH BASIS FUND BALANCES: | | | |
| Reserved for bond reserve funds | \$ 269,874 | \$ - | \$ 269,874 |
| Reserved for improvements | - | 12,010 | 12,010 |
| Reserved for insurance | - | 193,609 | 193,609 |
| Reserved for customer deposits | - | 38,787 | 38,787 |
| Reserved for insufficient checks | - | 7,949 | 7,949 |
| Unreserved | (167,465) | 1,539,551 | 1,372,086 |
| TOTAL CASH BASIS FUND BALANCES | <u><u>\$ 102,409</u></u> | <u><u>\$ 1,791,906</u></u> | <u><u>\$ 1,894,315</u></u> |

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

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 Position 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 Position presents the Utilities' nonfiduciary net position. Net Position is reported in two categories:

Restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of cash balances that do not meet the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

Note 1. SIGNIFICANT ACCOUNTING POLICIES (continued)

The Statement of Activities and Net Position 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.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.

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, 2013, 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, 2013, consisted of Certificates of Deposits and is not subject to risk categorization.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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 5.78% of their annual salary and the Utility is required to contribute 8.67% of annual covered payroll. Contribution requirements are established by State statute. The Utilities' contribution to IPERS for the years ended June 30, 2013, 2012, and 2011 were \$30,014, \$26,220 and \$21,689 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 <u>June 30,</u> | <u>Principal</u> Capital Loan Notes | <u>Interest</u> Capital Loan Notes |
|-----------------------------------|--|---|
| 2014 | \$ 260,000 | \$ 107,561 |
| 2015 | 270,000 | 100,422 |
| 2016 | 250,000 | 92,562 |
| 2017 | 255,000 | 84,563 |
| 2018 | 265,000 | 75,855 |
| 2019-2023 | 1,495,000 | 220,509 |
| 2024 | <u>160,000</u> | <u>6,480</u> |
| | <u>\$2,955,000</u> | <u>\$ 687,952</u> |

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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.
- 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, 2013, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|-----------------|
| Vacation | <u>\$18,811</u> |

This liability has been computed based on rates of pay as of June 30, 2013. 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.

STUART MUNICIPAL UTILITIES
NOTES TO FINANCIAL STATEMENTS
June 30, 2013

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, 2013, this customer accounted for approximately 25% 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, 2013, these customers accounted for approximately 13% of Utility's electric revenue.

Note 8. TERMINATION BENEFITS

The Utility offered a voluntary early retirement plan to its employees. Eligible employees must have completed at least twenty years of full-time service to the Utility. The application for early retirement is subject to approval by the Board of Trustees.

Early retirement benefits are continued coverage of health insurance benefits with the Utility providing for 75% of the annual employee health insurance benefit for a maximum of 3 consecutive years for employees with 30 or more years of service and for 50% of the annual employee health insurance benefit for a maximum of 2 consecutive years for employees with 20 to 30 year of service.

As of June 30, 2013, no employees had notified the Board of Trustees of electing the early retirement benefit.

Note 9. SUBSEQUENT EVENT

Management has evaluated subsequent events through January 17, 2014, the date on which the financial statements were available to be released.

OTHER INFORMATION

STUART MUNICIPAL UTILITIES
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - ACTUAL TO BUDGET
 Year Ended June 30, 2013

| | Actual | Less Funds not Required to be Budgeted |
|---|--------------|---|
| RECEIPTS: | | |
| Use of money and property | \$ 6,951 | \$ - |
| Charges for services | 2,390,365 | - |
| Miscellaneous | 98,255 | - |
| Total receipts | \$ 2,495,571 | \$ - |
| DISBURSEMENTS: | | |
| Business type activities: | | |
| Electric | \$ 675,146 | \$ - |
| Water | 1,614,995 | - |
| Total disbursements | \$ 2,290,141 | \$ - |
| EXCESS/(DEFICIENCY) OF RECEIPTS OVER/ (UNDER) DISBURSEMENTS | \$ 205,430 | \$ - |
| OTHER FINANCING SOURCES: | | |
| Transfers | - | - |
| EXCESS/(DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER/(UNDER) DISBURSEMENTS | \$ 205,430 | \$ - |
| BALANCE, beginning of year | 1,688,885 | - |
| BALANCE, end of year | \$ 1,894,315 | \$ - |

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

| Net | Budgeted Amounts | | Final To Net |
|---------------------|---------------------|---------------------|-------------------|
| | Original | Final | |
| \$ 6,951 | \$ - | \$ - | \$ 6,951 |
| 2,390,365 | 2,433,421 | 2,478,421 | (88,056) |
| 98,255 | - | - | 98,255 |
| <u>\$ 2,495,571</u> | <u>\$ 2,433,421</u> | <u>\$ 2,478,421</u> | <u>\$ 17,150</u> |
| | | | |
| \$ 675,146 | \$ 789,030 | \$ 823,664 | \$ 148,518 |
| 1,614,995 | 1,632,157 | 1,642,595 | 27,600 |
| <u>\$ 2,290,141</u> | <u>\$ 2,421,187</u> | <u>\$ 2,466,259</u> | <u>\$ 176,118</u> |
| | | | |
| \$ 205,430 | \$ 12,234 | \$ 12,162 | \$ 193,268 |
| | | | |
| - | - | - | - |
| | | | |
| \$ 205,430 | <u>\$ 12,234</u> | <u>\$ 12,162</u> | <u>\$ 193,268</u> |
| | | | |
| <u>1,688,885</u> | | | |
| <u>\$ 1,894,315</u> | | | |

STUART MUNICIPAL UTILITIES
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING
June 30, 2013

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 \$45,072. The budget amendment is reflected in the final budgeted amounts.

SUPPLEMENTARY INFORMATION

STUART MUNICIPAL UTILITIES
 SCHEDULE OF INDEBTEDNESS
 Year Ended June 30, 2013

| | | | Schedule 1 |
|--|--------------------------|--------------------------|---|
| | <u>Date of Issue</u> | <u>Interest Rate</u> | <u>Amount Originally Issued</u> |
| OBLIGATION | | | |
| 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.

| <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> | <u>Interest Due and Unpaid</u> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|--|
| \$ 1,505,000 | \$ - | \$ 110,000 | \$ 1,395,000 | \$ 63,528 | \$ - |
| <u>1,700,000</u> | <u>-</u> | <u>140,000</u> | <u>1,560,000</u> | <u>50,338</u> | <u>-</u> |
| <u><u>\$ 3,205,000</u></u> | <u><u>\$ -</u></u> | <u><u>\$ 250,000</u></u> | <u><u>\$ 2,955,000</u></u> | <u><u>\$ 113,866</u></u> | <u><u>\$ -</u></u> |

STUART MUNICIPAL UTILITIES
NOTE MATURITIES
Year Ended June 30, 2013

Schedule 2

| CAPITAL LOAN NOTES | | | | | |
|----------------------------|-------------------------|--------------|--------------------------|--------------|--------------------------------|
| Year Ending June 30, | Water Revenue | | Electric Revenue | | Total Capital Loan Notes |
| | Issued December 1, 2001 | | Issued December 30, 2010 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 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 |
| | | \$ 1,395,000 | | \$ 1,560,000 | \$ 2,955,000 |

See accompanying independent auditor's report

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

To the Board of Trustees
Stuart Municipal Utilities
Stuart, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, the financial statements of the business-type activities, of the Stuart Municipal Utilities, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the Stuart Municipal Utilities' basic financial statements and have issued our report thereon dated January 17, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the Stuart Municipal Utilities' internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances 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. Accordingly, we do not express an opinion on the effectiveness of the Stuart Municipal Utilities' internal control.

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. 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.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. We did identify certain deficiencies in internal control, described in the accompanying schedule of findings that we consider 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 no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

Stuart Municipal Utilities' Response to Findings

Stuart Municipal Utilities' response to the findings identified in our audit is described in the accompanying Schedule of Findings. Stuart Municipal Utilities' response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

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

January 17, 2014

STUART MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

SIGNIFICANT DEFICIENCIES:

2013-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.

OTHER FINDINGS RELATED TO STATUTORY REPORTING:

2013-1 Certified Budget – Disbursements during the year ended June 30, 2013 did not exceed the amounts budgeted in the business type activities functions.

2013-2 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.

2013-3 Travel Expense – No disbursements of the Stuart Municipal Utilities’ money for travel expenses of spouses of Utilities’ officials or employees were noted.

2013-4 Business Transactions – No business transactions between the Stuart Municipal Utilities and Utilities’ officials or employees were noted.

2013-5 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.

2013-6 Trustee Minutes – No transactions were found that we believe should have been approved in the Trustee minutes but were not.

STUART MUNICIPAL UTILITIES
SCHEDULE OF FINDINGS
Year Ended June 30, 2013

- 2013-7 Revenue Bonds – The Utilities has complied with the provisions of the revenue bond indentures.
- 2013-8 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.