

CITY OF STUART, IOWA

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

Year Ended June 30, 2014

CITY OF STUART, IOWA
TABLE OF CONTENTS

| | | <u>Page</u> |
|---|-----------------|-------------|
| OFFICIALS | | 1 |
| INDEPENDENT AUDITOR'S REPORT | | 2-4 |
| MANAGEMENT'S DISCUSSION AND ANALYSIS | | 5-10 |
| FINANCIAL STATEMENTS: | | |
| | <u>Exhibit</u> | |
| Government-wide Financial Statement: | | |
| Statement of Activities and Net Position – Cash Basis | A | 11 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 12 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | C | 13 |
| Notes to Financial Statements | | 14-22 |
| OTHER INFORMATION: | | |
| Budgetary Comparison Schedule of Receipts, Disbursement and Changes in Balances – Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds | | 23 |
| Notes to Other Information – Budgetary Reporting | | 24 |
| SUPPLEMENTARY INFORMATION: | <u>Schedule</u> | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances – Nonmajor Governmental Funds | 1 | 25-26 |
| Schedule of Indebtedness | 2 | 27 |
| Bond and Other Debt Maturities | 3 | 28-29 |
| INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u> | | 30-31 |
| SCHEDULE OF FINDINGS | | 32-33 |

CITY OF STUART, IOWA
OFFICIALS

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------|-----------------------------------|---------------------|
| Dick Cook | Mayor | January 2018 |
| Bryan Beldon | Mayor Pro tem | January 2018 |
| Wade Chafa | Council Member | January 2016 |
| James Morgan | Council Member | January 2016 |
| Neal Crawford | Council Member | January 2018 |
| Matt Funk | Council Member | January 2018 |
| Ashraf M. Ashour | Administrator/Clerk/ Treasurer | Indefinite |
| William Bump | City Attorney | Indefinite |

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Stuart, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic 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 the 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 entity's 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 entity's 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 provide a basis for our audit opinions.

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Stuart, Iowa, as of June 30, 2014, 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.

Other Matters

Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages 5-10 and 23-24 be presented to supplement the financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with U.S. generally accepted auditing standards, which consists of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the financial statements, and other knowledge we obtained during our audit of the financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stuart, Iowa's financial statements. The supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is also not a required part of the financial statements.

The combining and individual nonmajor fund financial statements are the responsibility of management and were derived from and relate 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 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic 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 combining and individual nonmajor fund financial statements are fairly stated in all material respects in relation to the financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated September 26, 2014, on our consideration 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 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 the 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 City of Stuart, Iowa's internal control over financial reporting and compliance.

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

September 26, 2014

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stuart provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

2014 Financial Highlights

The cash basis net position of the City's governmental activities decreased approximately \$2,104,000 due primarily to unfinished Capital Projects, Bond repayment and use of reserves.

The cash basis net assets of the City's business type activities increased approximately \$57,000 due to increase of usage.

Using This Annual Report

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the City's financial activities.

The Government-wide Financial Statements consists of a Statement of Activities and Position. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide statement by providing information about the most significant funds.

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

Other Information further explains and supports the financial statements with a comparison to the City's budget for the year.

Supplementary Information provides detailed information about the nonmajor governmental funds and the City's outstanding indebtedness.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements, and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and operational results of funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of cash basis accounting.

Reporting the City as a Whole

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Position reports information that helps answer this question.

The Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the sewer system. These activities are financed primarily by user fee and related charges.

Fund Financial Statements

The City has two kinds of funds:

1. Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Road Use Tax and Urban Renewal Tax Increment, 3) the Capital Projects Fund, 4) the Debt Service Fund and 5) the Permanent Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a statement of cash receipts, disbursements and changes in cash balances.

2. The proprietary fund accounts for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains one Enterprise Fund to provide separate information for sewer operations. The Sewer Fund is considered to be a major fund of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements, and changes in cash balances.

Government-Wide Financial Analysis

Net position may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$8,244,118 to \$6,139,241. The analysis that follows focuses on the changes in cash basis net position of governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

| | <u>Year Ended June 30, 2014</u> | <u>Year Ended June 30, 2013</u> |
|--|-------------------------------------|-------------------------------------|
| Receipts and transfers: | | |
| Program receipts: | | |
| Charges for services | \$ 334,176 | \$ 331,521 |
| General receipts: | | |
| Property tax | 703,988 | 744,794 |
| Tax incremental financing | 822,478 | 779,611 |
| Other city tax | 225,398 | 246,220 |
| Licenses and permits | 4,237 | 30,703 |
| Use of money and property | 27,927 | 34,719 |
| Intergovernmental | 380,899 | 470,924 |
| Special assessments | 4,467 | 6,113 |
| Miscellaneous | 357,673 | 246,962 |
| Other funding resources | <u>2,190,499</u> | <u>3,034,958</u> |
| Total receipts | <u>\$ 5,051,742</u> | <u>\$ 5,926,525</u> |
| Disbursements: | | |
| Public safety | \$ 553,480 | \$ 650,261 |
| Public works | 266,363 | 366,060 |
| Culture and recreation | 155,869 | 162,230 |
| Community and economic development | 952,606 | 589,554 |
| General government | 256,874 | 300,831 |
| Debt service | 2,946,286 | 738,642 |
| Capital projects | <u>2,025,141</u> | <u>1,357,886</u> |
| Total disbursements | <u>\$ 7,156,619</u> | <u>\$ 4,165,464</u> |
| Increase in cash basis net position | \$(2,104,877) | \$ 1,761,061 |
| Cash basis net position beginning of fiscal year | <u>8,244,118</u> | <u>6,483,057</u> |
| Cash basis net position end of fiscal year | <u>\$ 6,139,241</u> | <u>\$ 8,244,118</u> |

The decrease in cash basis net position of the City's governmental activities was due to capital projects not completely finished during the current year, Bond repayments and use of reserves.

Changes in Cash Basis Net Position of Business Type Activities

| | Year Ended <u>June 30, 2014</u> | Year Ended <u>June 30, 2013</u> |
|---|------------------------------------|------------------------------------|
| OPERATING RECEIPTS: | | |
| Charges for service | \$ 351,766 | \$ 350,113 |
| Total operating receipts | <u>\$ 351,766</u> | <u>\$ 350,113</u> |
| OPERATING DISBURSEMENTS: | | |
| Business type activities | \$ 295,259 | \$ 298,243 |
| Total operating disbursements | <u>\$ 295,259</u> | <u>\$ 298,243</u> |
| EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS | <u>\$ 56,507</u> | <u>\$ 51,870</u> |
| NON-OPERATING RECEIPTS (DISBURSEMENTS): | | |
| Uses of money and property | \$ 625 | \$ 1,179 |
| Miscellaneous | --- | 93 |
| Total non-operating receipts (disbursements) | <u>\$ 625</u> | <u>\$ 1,272</u> |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | <u>\$ 57,132</u> | <u>\$ 53,142</u> |
| OTHER FINANCING SOURCES (USES): | | |
| Bond proceeds | \$ --- | \$ 5,000 |
| Total other financing sources (uses) | <u>\$ ---</u> | <u>\$ 5,000</u> |
| NET CHANGES IN CASH BALANCES | \$ 57,132 | \$ 58,142 |
| CASH BALANCES, BEGINNING OF YEAR | <u>797,675</u> | <u>739,533</u> |
| CASH BALANCES, END OF YEAR | <u>\$ 854,807</u> | <u>\$ 797,675</u> |
| CASH BASIS FUND BALANCES | | |
| Reserved for debt service | \$ 127,289 | \$ 87,566 |
| Reserved for capital replacement | 400,733 | 100,164 |
| Unreserved | <u>326,785</u> | <u>609,945</u> |
| Total cash basis fund balances | <u>\$ 854,807</u> | <u>\$ 797,675</u> |

Total business type activity cash balances increased by \$57,132 from a year ago, increasing from \$797,675 to \$854,807. The increase was due to increase of usage.

Individual Major Governmental Fund Analysis

As the City of Stuart completed the year, its governmental funds reported a decrease of \$2,104,877 from the prior year due to unfinished Capital Projects, Bond repayments and use of reserves.

Individual Major Business Type Fund Analysis

The Sewer Fund cash balance increased \$57,132 to a year-end balance of \$854,807. The increase was due to increase of sewer usage.

Budgetary Highlights

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

Debt Administration

At June 30, 2014, the City had \$14,293,000 in notes and other long-term debt outstanding, compared to \$15,366,453 at the end of last year. The chart below segregates the City's debt into its component parts.

| | Outstanding Debt at Year End | |
|--------------------------|------------------------------|-------------------------|
| | <u>2014</u> | June 30, <u>2013</u> |
| General obligation notes | \$12,860,000 | \$13,650,000 |
| Revenue notes | 1,303,000 | 1,415,000 |
| Bank loans | <u>130,000</u> | <u>301,453</u> |
| Total | <u>\$14,293,000</u> | <u>\$15,366,453</u> |

Economic Factors and Next Year's Budget and Rates

The City Council considers many factors when setting the 2015 fiscal year budget.

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

These factors all contributed when adopting the fiscal year 2015 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 2015 fiscal year budget.

Contacting the City's Financial Management

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

FINANCIAL STATEMENTS

CITY OF STUART, IOWA
STATEMENT OF ACTIVITIES AND NET POSITION - CASH BASIS
As of and for the Year Ended June 30, 2014

Exhibit A

| FUNCTIONS/PROGRAMS: | PROGRAM RECEIPTS | | | |
|---|---------------------|-------------------------|--|---|
| | Disbursements | Charges For Services | Operating Grants Contributions, and Restricted Interest | Capital Grants Contributions and Restricted Interest |
| Governmental activities | | | | |
| Public safety | \$ 553,480 | \$ 177,130 | \$ 30,442 | \$ - |
| Public works | 266,362 | 114,652 | 164,559 | - |
| Health and social services | - | - | - | - |
| Culture and recreation | 155,869 | 44,374 | 17,598 | - |
| Community/economic development | 952,606 | - | - | - |
| General government | 256,874 | - | - | - |
| Debt service | 2,946,286 | - | - | - |
| Capital projects | 2,025,141 | - | - | 199,410 |
| Total governmental activities | \$ 7,156,618 | \$ 336,156 | \$ 212,599 | \$ 199,410 |
| Business type activities | | | | |
| Sewer | \$ 295,259 | \$ 351,766 | \$ - | \$ - |
| Total business type activities | \$ 295,259 | \$ 351,766 | \$ - | \$ - |
| TOTAL PRIMARY GOVERNMENT | \$ 7,451,877 | \$ 687,922 | \$ 212,599 | \$ 199,410 |
| COMPONENT UNIT: | | | | |
| Utilities | \$ 2,446,084 | \$ 2,518,641 | \$ - | \$ - |
| GENERAL RECEIPTS: | | | | |
| Property taxes levied for | | | | |
| General purposes | | | | |
| Tax incremental financing | | | | |
| Debt service | | | | |
| Hotel/motel sales tax | | | | |
| Local option sales tax | | | | |
| Interest on investments | | | | |
| Bond/note proceeds | | | | |
| Miscellaneous | | | | |
| Sale of assets | | | | |
| Transfers | | | | |
| TOTAL GENERAL RECEIPTS | | | | |
| CHANGE IN CASH BASIS NET POSITION | | | | |
| CASH BASIS NET POSITION, BEGINNING OF YEAR | | | | |
| CASH BASIS NET POSITION, END OF YEAR | | | | |
| CASH BASIS NET POSITION | | | | |
| Restricted | | | | |
| Nonexpendable: | | | | |
| Cemetery perpetual care | | | | |
| Expendable: | | | | |
| Streets | | | | |
| Urban renewal purposes | | | | |
| Debt service | | | | |
| Other purposes | | | | |
| Unrestricted | | | | |
| TOTAL CASH BASIS NET POSITION | | | | |

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

NET (DISBURSEMENTS) RECEIPTS AND CHANGES

| Governmental Activities | Business Type Activities | Total | Component Unit |
|----------------------------|--------------------------------|----------------------------|----------------------------|
| | | | Utilities |
| \$ (345,908) | \$ - | \$ (345,908) | \$ - |
| 12,849 | - | 12,849 | - |
| - | - | - | - |
| (93,897) | - | (93,897) | - |
| (952,606) | - | (952,606) | - |
| (256,874) | - | (256,874) | - |
| (2,946,286) | - | (2,946,286) | - |
| (1,825,731) | - | (1,825,731) | - |
| <u>\$ (6,408,453)</u> | <u>\$ -</u> | <u>\$ (6,408,453)</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ 56,507</u> | <u>\$ 56,507</u> | <u>\$ -</u> |
| <u>\$ -</u> | <u>\$ 56,507</u> | <u>\$ 56,507</u> | <u>\$ -</u> |
| <u>\$ (6,408,453)</u> | <u>\$ 56,507</u> | <u>\$ (6,351,946)</u> | <u>\$ -</u> |
| | | | <u>\$ 72,557</u> |
| \$ 399,584 | \$ - | \$ 399,584 | \$ - |
| 822,478 | - | 822,478 | - |
| 260,832 | - | 260,832 | - |
| 88,313 | - | 88,313 | - |
| 137,085 | - | 137,085 | - |
| 27,927 | 625 | 28,552 | 5,148 |
| 2,187,892 | - | 2,187,892 | - |
| 376,858 | - | 376,858 | 99,247 |
| 2,607 | - | 2,607 | - |
| - | - | - | - |
| <u>\$ 4,303,576</u> | <u>\$ 625</u> | <u>\$ 4,304,201</u> | <u>\$ 104,395</u> |
| <u>\$ (2,104,877)</u> | <u>\$ 57,132</u> | <u>\$ (2,047,745)</u> | <u>\$ 176,952</u> |
| <u>8,244,118</u> | <u>797,675</u> | <u>9,041,793</u> | <u>1,894,315</u> |
| <u><u>\$ 6,139,241</u></u> | <u><u>\$ 854,807</u></u> | <u><u>\$ 6,994,048</u></u> | <u><u>\$ 2,071,267</u></u> |
| \$ 69,890 | \$ - | \$ 69,890 | |
| 178,061 | - | 178,061 | |
| 170,398 | - | 170,398 | |
| 4,182,002 | 127,289 | 4,309,291 | |
| 116,345 | 400,733 | 517,078 | |
| 1,422,545 | 326,785 | 1,749,330 | |
| <u>\$ 6,139,241</u> | <u>\$ 854,807</u> | <u>\$ 6,994,048</u> | |

CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2014

Exhibit B

| | SPECIAL REVENUE | | |
|---|----------------------|-----------------------------------|--------------|
| General | Employee Benefits | Urban Renewal Tax Increment | |
| RECEIPTS: | | | |
| Property taxes | \$ 354,718 | \$ 92,905 | \$ - |
| Tax increment financing collections | - | - | 822,478 |
| Other city taxes | 225,398 | - | - |
| Licenses and permits | 4,237 | - | - |
| Use of money and property | 374 | 89 | 15 |
| Intergovernmental | 16,930 | - | - |
| Charges for service | 334,176 | - | - |
| Special assessments | - | - | - |
| Miscellaneous | 329,270 | - | - |
| Total receipts | \$ 1,265,103 | \$ 92,994 | \$ 822,493 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ 472,279 | \$ 81,039 | \$ - |
| Public works | 158,330 | 22,704 | - |
| Health and social services | - | - | - |
| Culture and recreation | 145,554 | 10,315 | - |
| Community/economic development | - | - | 952,606 |
| General government | 221,545 | 35,329 | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| Total disbursements | \$ 997,708 | \$ 149,387 | \$ 952,606 |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | \$ 267,395 | \$ (56,393) | \$ (130,113) |
| OTHER FINANCING SOURCES (USES): | | | |
| Sale of property | \$ 2,607 | \$ - | \$ - |
| Bond proceeds | - | - | - |
| Operating transfers in | 5,929 | 35,000 | - |
| Operating transfers out | (35,000) | - | - |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ (26,464) | \$ 35,000 | \$ - |
| NET CHANGE IN CASH BALANCES | \$ 240,931 | \$ (21,393) | \$ (130,113) |
| CASH BALANCES, BEGINNING OF YEAR | 798,991 | 137,530 | 300,511 |
| CASH BALANCES, END OF YEAR | \$ 1,039,922 | \$ 116,137 | \$ 170,398 |
| CASH BASIS FUND BALANCES: | | | |
| Nonspendable: | | | |
| Cemetery perpetual care | \$ - | \$ - | \$ - |
| Restricted for: | | | |
| Urban renewal purposes | - | - | 170,398 |
| Debt service | - | - | - |
| Street | - | - | - |
| Other purposes | - | 116,137 | - |
| Unassigned | 1,039,922 | - | - |
| TOTAL CASH BASIS FUND BALANCES | \$ 1,039,922 | \$ 116,137 | \$ 170,398 |

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

| Debt Service | Other Nonmajor Governmental Funds | Total |
|-------------------|--|---------------------|
| \$ 256,365 | \$ - | \$ 703,988 |
| - | - | 822,478 |
| - | - | 225,398 |
| - | - | 4,237 |
| 26,857 | 592 | 27,927 |
| - | 363,969 | 380,899 |
| - | - | 334,176 |
| 4,467 | - | 4,467 |
| - | 28,403 | 357,673 |
| <u>\$ 287,689</u> | <u>\$ 392,964</u> | <u>\$ 2,861,243</u> |

| | | |
|---------------------|---------------------|---------------------|
| \$ - | \$ 162 | \$ 553,480 |
| - | 85,329 | 266,363 |
| - | - | - |
| - | - | 155,869 |
| - | - | 952,606 |
| - | - | 256,874 |
| 2,946,286 | - | 2,946,286 |
| - | 2,025,141 | 2,025,141 |
| <u>\$ 2,946,286</u> | <u>\$ 2,110,632</u> | <u>\$ 7,156,619</u> |

| | | |
|-----------------------|-----------------------|-----------------------|
| <u>\$ (2,658,597)</u> | <u>\$ (1,717,668)</u> | <u>\$ (4,295,376)</u> |
|-----------------------|-----------------------|-----------------------|

| | | |
|----------------|-----------------|------------------|
| \$ - | \$ - | \$ 2,607 |
| 1,596,291 | 591,601 | 2,187,892 |
| 64,957 | - | 105,886 |
| <u>(4,400)</u> | <u>(66,486)</u> | <u>(105,886)</u> |

| | | |
|---------------------|-------------------|---------------------|
| <u>\$ 1,656,848</u> | <u>\$ 525,115</u> | <u>\$ 2,190,499</u> |
|---------------------|-------------------|---------------------|

| | | |
|----------------|----------------|----------------|
| \$ (1,001,749) | \$ (1,192,553) | \$ (2,104,877) |
|----------------|----------------|----------------|

| | | |
|------------------|------------------|------------------|
| <u>5,183,751</u> | <u>1,823,335</u> | <u>8,244,118</u> |
|------------------|------------------|------------------|

| | | |
|---------------------|-------------------|---------------------|
| <u>\$ 4,182,002</u> | <u>\$ 630,782</u> | <u>\$ 6,139,241</u> |
|---------------------|-------------------|---------------------|

| | | |
|------|-----------|-----------|
| \$ - | \$ 69,890 | \$ 69,890 |
|------|-----------|-----------|

| | | |
|---|---|---------|
| - | - | 170,398 |
|---|---|---------|

| | | |
|-----------|---|-----------|
| 4,182,002 | - | 4,182,002 |
|-----------|---|-----------|

| | | |
|---|---------|---------|
| - | 178,061 | 178,061 |
|---|---------|---------|

| | | |
|---|-----|---------|
| - | 208 | 116,345 |
|---|-----|---------|

| | | |
|---|---------|-----------|
| - | 382,623 | 1,422,545 |
|---|---------|-----------|

| | | |
|---------------------|-------------------|---------------------|
| <u>\$ 4,182,002</u> | <u>\$ 630,782</u> | <u>\$ 6,139,241</u> |
|---------------------|-------------------|---------------------|

CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS AND
CHANGES IN CASH BALANCES
PROPRIETARY FUND

As of and for the Year Ended June 30, 2014

Exhibit C

Enterprise
Fund

Sewer

| | |
|---|--------------------------|
| OPERATING RECEIPTS: | |
| Charge for service | \$ 351,766 |
| Total operating receipts | <u>\$ 351,766</u> |
| | |
| OPERATING DISBURSEMENTS: | |
| Business type activities | \$ 295,259 |
| Total operating disbursements | <u>\$ 295,259</u> |
| | |
| EXCESS (DEFICIENCY) OF OPERATING RECEIPTS OVER (UNDER) OPERATING DISBURSEMENTS | <u>\$ 56,507</u> |
| | |
| NON-OPERATING RECEIPTS (DISBURSEMENTS): | |
| Uses of money and property | \$ 625 |
| Miscellaneous | - |
| Total non-operating receipts (disbursements) | <u>\$ 625</u> |
| | |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | <u>\$ 57,132</u> |
| | |
| OTHER FINANCING SOURCES (USES): | |
| Bond proceeds | \$ - |
| Operating transfers in | - |
| Operating transfers out | - |
| Total other financing sources (uses) | <u>\$ -</u> |
| | |
| NET CHANGE IN CASH BALANCES | \$ 57,132 |
| | |
| CASH BALANCES, BEGINNING OF YEAR | <u>797,675</u> |
| | |
| CASH BALANCES, END OF YEAR | <u><u>\$ 854,807</u></u> |
| | |
| CASH BASIS FUND BALANCES: | |
| Reserved for debt service | \$ 127,289 |
| Reserved for capital replacement | 400,733 |
| Unreserved | 326,785 |
| Total cash basis fund balances | <u><u>\$ 854,807</u></u> |

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

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies

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

Reporting Entity

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

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

Discretely Presented Component Unit

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

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

Basis of Presentation

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

The Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position are reported in the following categories/components:

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

Unrestricted net position consist of net position not meeting the definition of the preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

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

The City reports the following major governmental funds:

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Employee Benefit Fund is used to account for employee pensions and other benefits.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The City reports the following major proprietary fund:

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

Measurement Focus and Basis of Accounting

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

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net position available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs followed by categorical block grants and then by general receipts.

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

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 1. Summary of Significant Accounting Policies (continued)

Governmental Cash Basis Fund Balances:

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

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

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

Unassigned – All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements exceed the amounts budgeted in the Debt Service Function; and General Government Functions prior to the budget amendment.

Note 2. Deposits and Investments

The City's deposits in banks at June 30, 2014, were entirely covered by Federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Notes Payable

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

| Year ending June 30, | General | | | Total |
|-------------------------|---------------------|---------------------|-------------------|----------------------|
| | Obligation Notes | Sewer Revenue | Other Debt | |
| 2015 | \$ 890,000 | \$ 114,000 | \$ 27,500 | \$ 1,031,500 |
| 2016 | 925,000 | 120,000 | 30,000 | 1,075,000 |
| 2017 | 940,000 | 126,000 | 30,000 | 1,096,000 |
| 2018 | 940,000 | 127,000 | 30,000 | 1,097,000 |
| 2019 | 850,000 | 134,000 | 12,500 | 996,500 |
| 2020-2024 | 3,940,000 | 336,000 | - | 4,276,000 |
| 2025-2029 | 4,285,000 | 284,000 | - | 4,569,000 |
| 2030-2031 | 90,000 | 62,000 | - | 152,000 |
| | <u>\$12,860,000</u> | <u>\$ 1,303,000</u> | <u>\$ 130,000</u> | <u>\$ 14,293,000</u> |

| Year ending June 30, | Interest | | | Total |
|-------------------------|--------------------------------|-------------------|---------------|---------------------|
| | General Obligation Notes | Sewer Revenue | Other Debt | |
| 2015 | \$ 513,233 | \$ 42,610 | \$ - | \$ 555,843 |
| 2016 | 487,633 | 39,003 | - | 526,636 |
| 2017 | 459,693 | 35,203 | - | 494,896 |
| 2018 | 430,155 | 30,828 | - | 460,983 |
| 2019 | 398,650 | 26,423 | - | 425,073 |
| 2020-2024 | 1,522,727 | 77,888 | - | 1,600,615 |
| 2025-2029 | 502,437 | 35,400 | - | 537,837 |
| 2030-2031 | 3,848 | 1,860 | - | 5,708 |
| | <u>\$ 4,318,376</u> | <u>\$ 289,215</u> | <u>\$ -</u> | <u>\$ 4,607,591</u> |

Sewer Revenue Notes

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

- a. The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 3. Notes Payable (continued)

- b. Sufficient monthly transfers shall be made to a sewer revenue note sinking account for the purpose of making the note principal and interest payments when due.
- c. Additional monthly transfers shall be made to a sewer revenue reserve account until a specific minimum balance has been accumulated. This account is restricted for the purpose of paying, at maturity, principal or interest on the notes when insufficient money shall be available in the sinking account.
- d. A sewer revenue improvement account shall be maintained with a required minimum balance of \$50,000. This account is restricted to the purpose of paying, at maturity, principal or interest on the notes when insufficient money shall be available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget and current expenses, payment of rentals on any part of the system or payments due for any property purchased as a part of the system and for capital improvements to the system.
- e. Sewer user rates shall be established at a level which produces and maintains net revenues at a level no less than 110% of the amount of principal and interest on the notes falling due in the same year.

Other Debt

On November 11, 2008, the City entered into a note agreement with CIPCO/USDA for financing the cost improvements at the aquatic center for \$300,000 at 0% interest. Principal payments are due monthly beginning December 14, 2008. The balance at June 30, 2014 is \$130,000.

Note 4. Pension and Retirement Benefits

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

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 4. Pension and Retirement Benefits (continued)

Most regular plan members are required to contribute 5.95% of their annual covered salary and the City is required to contribute 8.93% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by State statute. The City's contribution to IPERS for the year ended June 30, 2014, 2013 and 2012 was \$40,154, \$38,335 and \$31,167 respectively, equal to the required contribution for each year.

Note 5. Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time payable to employees at June 30, 2014, primarily relating to the General Fund, is as follows:

| <u>Type of Benefit</u> | <u>Amount</u> |
|------------------------|------------------|
| Vacation | <u>\$ 19,826</u> |

This liability has been computed based on rates of pay as of June 30, 2014.

Note 6. Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2014, is as follows:

| <u>Transfer to</u> | <u>Transfer from</u> | <u>Amount</u> |
|--------------------|----------------------|------------------|
| General | Debt service | \$ 4,400 |
| | Special revenue: | |
| | Library | <u>1,529</u> |
| | | <u>\$ 5,929</u> |
| Debt service | Special revenue: | |
| | Road use | <u>\$ 64,957</u> |
| Special revenue: | | |
| Employee benefits | General | <u>\$ 35,000</u> |
| Total | | <u>\$105,886</u> |

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 6. Interfund Transfers

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

Note 7. Risk Management

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

Note 8. Jointly Governed Organizations

The City participates in several jointly governed organizations that provide goods or services to the citizens of the City but do not meet the criteria of a joint venture since there are no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Adair and Guthrie County Assessors' Conference Boards, Adair County Landfill Association, Adair and Guthrie County Emergency Management Commissions and Adair and Guthrie County Joint E911 Service Boards.

Note 9. Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 68, Accounting and Financial Reporting for Pensions – an amendment of GASB No.27. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

CITY OF STUART, IOWA
NOTES TO FINANCIAL STATEMENTS
June 30, 2014

Note 10. Subsequent Events

In September 2014, the City approved the issuance of \$175,000 General Obligation Loan Agreement for the purpose of acquiring a fire truck.

In September 2014, the City approved a development agreement including Tax Incremental Financing not to exceed \$250,000.

Management has evaluated subsequent events through September 26, 2014, the date on which the financial statements were available to be issued.

OTHER INFORMATION

CITY OF STUART, IOWA
 BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS
 AND CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
 ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
 Year Ended June 30, 2014

| | Governmental Funds Actual | Proprietary Funds Actual | Total |
|--|---------------------------------|--------------------------------|-----------------------|
| RECEIPTS: | | | |
| Property tax | \$ 703,988 | \$ - | \$ 703,988 |
| Tax increment financing | 822,478 | - | 822,478 |
| Other city tax | 225,398 | - | 225,398 |
| Licenses and permits | 4,237 | - | 4,237 |
| Use of money and property | 27,927 | 625 | 28,552 |
| Intergovernmental | 380,899 | - | 380,899 |
| Charges for service | 334,176 | 351,766 | 685,942 |
| Special assessments | 4,467 | - | 4,467 |
| Miscellaneous | 357,673 | - | 357,673 |
| TOTAL RECEIPTS | \$ 2,861,243 | \$ 352,391 | \$ 3,213,634 |
| DISBURSEMENTS: | | | |
| Public safety | \$ 553,480 | \$ - | \$ 553,480 |
| Public works | 266,363 | - | 266,363 |
| Culture and recreation | 155,869 | - | 155,869 |
| Community and economic development | 952,606 | - | 952,606 |
| General government | 256,874 | - | 256,874 |
| Debt service | 2,946,286 | - | 2,946,286 |
| Capital projects | 2,025,141 | - | 2,025,141 |
| Business type activities | - | 295,259 | 295,259 |
| TOTAL DISBURSEMENTS | \$ 7,156,619 | \$ 295,259 | \$ 7,451,878 |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | \$ (4,295,376) | \$ 57,132 | \$ (4,238,244) |
| OTHER FINANCING SOURCES (USES), NET | 2,190,499 | - | 2,190,499 |
| EXCESS (DEFICIENCY) OF RECEIPTS AND OTHER FINANCING SOURCES OVER (UNDER) DISBURSEMENTS AND OTHER FINANCING USES | \$ (2,104,877) | \$ 57,132 | \$ (2,047,745) |
| BALANCE, BEGINNING OF YEAR | 8,244,118 | 797,675 | 9,041,793 |
| BALANCE, END OF YEAR | \$ 6,139,241 | \$ 854,807 | \$ 6,994,048 |

See accompanying independent auditor's report.

| Budgeted Amounts | | Final to |
|---------------------|---------------------|-----------------------|
| Original | Final | Total |
| | | Variance |
| \$ 670,635 | \$ 670,635 | \$ 33,353 |
| 928,181 | 928,181 | (105,703) |
| 218,360 | 218,360 | 7,038 |
| 5,834 | 5,834 | (1,597) |
| 32,204 | 32,204 | (3,652) |
| 1,989,939 | 1,989,939 | (1,609,040) |
| 616,617 | 616,617 | 69,325 |
| - | - | 4,467 |
| 35,000 | 235,000 | 122,673 |
| <u>\$ 4,496,770</u> | <u>\$ 4,696,770</u> | <u>\$ (1,483,136)</u> |
| | | |
| \$ 505,583 | \$ 620,583 | \$ 67,103 |
| 322,821 | 426,821 | 160,458 |
| 128,531 | 182,560 | 26,691 |
| | | |
| 920,952 | 959,443 | 6,837 |
| 210,534 | 303,034 | 46,160 |
| 329,262 | 331,762 | (2,614,524) |
| 1,750,000 | 2,600,000 | 574,859 |
| 342,033 | 316,750 | 21,491 |
| <u>\$ 4,509,716</u> | <u>\$ 5,740,953</u> | <u>\$ (1,710,925)</u> |
| | | |
| \$ (12,946) | \$ (1,044,183) | \$ (3,194,061) |
| | | |
| <u>-</u> | <u>835,000</u> | <u>1,355,499</u> |
| | | |
| \$ (12,946) | \$ (209,183) | <u>\$ (1,838,562)</u> |
| | | |
| <u>2,191,528</u> | <u>2,191,528</u> | |
| <u>\$ 2,178,582</u> | <u>\$ 1,982,345</u> | |

CITY OF STUART, IOWA
NOTES TO OTHER INFORMATION – BUDGETARY REPORTING
June 30, 2014

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-programs. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Proprietary Fund. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$1,231,237. The budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, disbursements exceeded the amounts budgeted in the Debt Service Function; and in the General Government Functions prior to budget amendment.

SUPPLEMENTARY INFORMATION

CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2014

Schedule 1

| | Special Revenue | | |
|--|--------------------|-----------------|-------------------|
| | Expendable Trusts | | |
| | Road Use | Fire/ Rescue | Library |
| RECEIPTS: | | | |
| Property tax | \$ - | \$ - | \$ - |
| Tax increment financing collections | - | - | - |
| Other city tax | - | - | - |
| Licenses and permits | - | - | - |
| Uses of money and property | 118 | - | - |
| Intergovernmental | 164,559 | - | - |
| Charges for services | - | - | - |
| Special assessments | - | - | - |
| Miscellaneous | 1,613 | 50 | 1 |
| TOTAL RECEIPTS | \$ 166,290 | \$ 50 | \$ 1 |
| DISBURSEMENTS: | | | |
| Operating: | | | |
| Public safety | \$ - | \$ 162 | \$ - |
| Public works | 85,329 | - | - |
| Health and social services | - | - | - |
| Culture and recreation | - | - | - |
| Community and economic development | - | - | - |
| General government | - | - | - |
| Debt service | - | - | - |
| Capital projects | - | - | - |
| TOTAL DISBURSEMENTS | \$ 85,329 | \$ 162 | \$ 1 |
| EXCESS (DEFICIENCY) OF RECEIPTS OVER (UNDER) DISBURSEMENTS | \$ 80,961 | \$ (112) | \$ 1 |
| OTHER FINANCING SOURCES (USES): | | | |
| Bond proceeds | \$ - | \$ - | \$ - |
| Operating transfers in | - | - | - |
| Operating transfers out | (64,957) | - | (1,529) |
| TOTAL OTHER FINANCING SOURCES (USES) | \$ (64,957) | \$ - | \$ (1,529) |

See accompanying independent auditor's report.

| <u>Capital Projects</u> | <u>Permanent Cemetery Perpetual Care</u> | <u>Total</u> |
|-----------------------------|--|-----------------------|
| \$ - | \$ - | \$ - |
| - | - | - |
| - | - | - |
| - | - | - |
| - | 474 | 592 |
| 199,410 | - | 363,969 |
| - | - | - |
| - | - | - |
| 26,739 | - | 28,403 |
| <u>\$ 226,149</u> | <u>\$ 474</u> | <u>\$ 392,964</u> |
| \$ - | \$ - | \$ 162 |
| - | - | 85,329 |
| - | - | - |
| - | - | - |
| - | - | - |
| - | - | - |
| 2,025,141 | - | 2,025,141 |
| <u>\$ 2,025,141</u> | <u>\$ -</u> | <u>\$ 2,110,632</u> |
| <u>\$ (1,798,992)</u> | <u>\$ 474</u> | <u>\$ (1,717,668)</u> |
| \$ 591,601 | \$ - | \$ 591,601 |
| - | - | - |
| - | - | (66,486) |
| <u>\$ 591,601</u> | <u>\$ -</u> | <u>\$ 525,115</u> |

CITY OF STUART, IOWA
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES
NONMAJOR GOVERNMENTAL FUNDS
As of and for the Year Ended June 30, 2013

Schedule 1

| | Special Revenue | | |
|----------------------------------|-----------------|-------------------|------------|
| | Road Use | Expendable Trusts | |
| | | Fire/ Rescue | Library |
| NET CHANGE IN CASH BALANCE | \$ 16,004 | \$ (112) | \$ (1,528) |
| CASH BALANCES, BEGINNING OF YEAR | 162,057 | 320 | 1,528 |
| CASH BALANCES, END OF YEAR | \$ 178,061 | \$ 208 | \$ - |
| CASH BASIS FUND BALANCES: | | | |
| Nonspendable: | | | |
| Cemetery perpetual care | \$ - | \$ - | \$ - |
| Restricted for: | | | |
| Street | 178,061 | - | - |
| Other purposes | - | 208 | - |
| Unassigned | - | - | - |
| TOTAL CASH BASIS FUND BALANCES | \$ 178,061 | \$ 208 | \$ - |

See accompanying independent auditor's report.

| <u>Capital Projects</u> | <u>Permanent Cemetery Perpetual Care</u> | <u>Total</u> |
|-----------------------------|--|-------------------|
| \$ (1,207,391) | \$ 474 | \$ (1,192,553) |
| <u>1,590,014</u> | <u>69,416</u> | <u>1,823,335</u> |
| <u>\$ 382,623</u> | <u>\$ 69,890</u> | <u>\$ 630,782</u> |
| \$ - | \$ 69,890 | \$ 69,890 |
| - | - | 178,061 |
| - | - | 208 |
| <u>382,623</u> | <u>-</u> | <u>382,623</u> |
| <u>\$ 382,623</u> | <u>\$ 69,890</u> | <u>\$ 630,782</u> |

CITY OF STUART, IOWA
SCHEDULE OF INDEBTEDNESS
Year Ended June 30, 2014

| <u>Obligation</u> | <u>Date of Issue</u> | <u>Interest Rate</u> | <u>Schedule 2 Amount Originally Issued</u> |
|--|----------------------|----------------------|--|
| General obligation notes: | | | |
| Annual anticipation capital loan notes | Dec 18, 2007 | 4.75-4.95% | 1,700,000 |
| Street improvements | Oct 15, 2008 | 2.45-4.05% | 1,165,000 |
| Corporate purpose and refunding | June 15, 2009 | 1.75-5.75% | 4,590,000 |
| Annual appropriation | June 28, 2012 | 1.50-4.15% | 4,880,000 |
| Municipal building | Aug 30, 2011 | 1.90% | 165,000 |
| Corporate purpose and refunding | Dec 4, 2012 | .70-2.85% | 1,255,000 |
| Anticipation notes | Jan 14, 2013 | 0.45% | 1,750,000 |
| Corporate purpose and refunding | Aug 27, 2013 | 5.00% | 2,275,000 |
| Total | | | |
| Revenue notes: | | | |
| Sewer - SRF | Dec 9, 2009 | 3.00% | 1,060,000 |
| Sewer | Dec 15, 2009 | 2.15-4.05% | 710,000 |
| Total | | | |
| Other debt: | | | |
| Ambulance | Dec 12, 2011 | 3.75% | 105,000 |
| CIPCO/USDA | Nov 14, 2008 | 0.00% | 300,000 |
| Police car | July 19, 2012 | 3.00% | 33,953 |
| 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> |
|--|-----------------------------------|-------------------------------------|------------------------------------|--------------------------|
| \$ 1,420,000 | \$ - | \$ 70,000 | \$ 1,350,000 | \$ 68,230 |
| 725,000 | - | 725,000 | - | 28,203 |
| 3,775,000 | - | 220,000 | 3,555,000 | 184,043 |
| 4,590,000 | - | 270,000 | 4,320,000 | 141,325 |
| 135,000 | - | 30,000 | 105,000 | 2,565 |
| 1,255,000 | - | - | 1,255,000 | 19,730 |
| 1,750,000 | - | 1,750,000 | - | 1,291 |
| - | 2,275,000 | - | 2,275,000 | 86,576 |
| <u>\$ 13,650,000</u> | <u>\$ 2,275,000</u> | <u>\$ 3,065,000</u> | <u>\$ 12,860,000</u> | <u>\$ 531,963</u> |
| \$ 830,000 | \$ - | \$ 37,000 | \$ 793,000 | \$ 24,894 |
| 585,000 | - | 75,000 | 510,000 | 20,808 |
| <u>\$ 1,415,000</u> | <u>\$ -</u> | <u>\$ 112,000</u> | <u>\$ 1,303,000</u> | <u>\$ 45,702</u> |
| \$ 105,000 | \$ - | \$ 105,000 | \$ - | \$ 690 |
| 162,500 | - | 32,500 | 130,000 | - |
| 33,953 | - | 33,953 | - | 179 |
| <u>\$ 301,453</u> | <u>\$ -</u> | <u>\$ 171,453</u> | <u>\$ 130,000</u> | <u>\$ 869</u> |

CITY OF STUART, IOWA
 BOND AND OTHER DEBT MATURITIES
 JUNE 30, 2014

Schedule 3

| Year Ending June 30, | General Obligation Notes | | | | | |
|----------------------------|--|---------------------|---|---------------------|--|---------------------|
| | Annual Appropriation Issued December 18, 2007 | | Corporate Purpose Issued June 15, 2009 | | Annual Appropriation Issued June 28, 2012 | |
| | Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount |
| 2015 | 4.95 | \$ 75,000 | 3.85 | \$ 225,000 | 1.90 | \$ 275,000 |
| 2016 | 4.95 | 80,000 | 4.05 | 240,000 | 2.10 | 285,000 |
| 2017 | 4.95 | 85,000 | 4.20 | 245,000 | 2.25 | 290,000 |
| 2018 | 4.95 | 90,000 | 4.40 | 260,000 | 2.45 | 300,000 |
| 2019 | 4.95 | 95,000 | 4.60 | 220,000 | 2.65 | 305,000 |
| 2020 | 4.85 | 100,000 | 4.75 | 205,000 | 2.95 | 290,000 |
| 2021 | 4.60 | 100,000 | 4.90 | 215,000 | 3.15 | 295,000 |
| 2022 | 4.65 | 105,000 | 5.00 | 205,000 | 3.35 | 285,000 |
| 2023 | 4.70 | 110,000 | 5.10 | 210,000 | 3.30 | 290,000 |
| 2024 | 4.75 | 120,000 | 5.20 | 225,000 | 3.60 | 305,000 |
| 2025 | 4.75 | 125,000 | 5.35 | 235,000 | 3.75 | 305,000 |
| 2026 | 4.75 | 130,000 | 5.30 | 245,000 | 3.90 | 325,000 |
| 2027 | 4.75 | 135,000 | 5.60 | 260,000 | 3.95 | 340,000 |
| 2028 | | - | 5.70 | 275,000 | 4.05 | 210,000 |
| 2029 | | - | 5.75 | 290,000 | 4.15 | 220,000 |
| 2030 | | - | | - | | |
| 2031 | | - | | - | | |
| | | <u>\$ 1,350,000</u> | | <u>\$ 3,555,000</u> | | <u>\$ 4,320,000</u> |

See accompanying independent auditor's report.

General Obligation Notes

| Municipal Building Issued August 30, 2011 | | Corporate Repurpose Issued December 4, 2012 | | Anticipation Notes Issued August 27, 2013 | | Total General Obligation Notes |
|--|-------------------|--|---------------------|--|---------------------|---|
| Interest Rates | Amount | Interest Rates | Amount | Interest Rates | Amount | |
| 1.90 | \$ 35,000 | 0.70 | \$ 155,000 | 5.00 | \$ 125,000 | \$ 890,000 |
| 1.90 | 35,000 | 0.85 | 160,000 | 5.00 | 125,000 | 925,000 |
| 1.90 | 35,000 | 1.00 | 160,000 | 5.00 | 125,000 | 940,000 |
| - | - | 1.10 | 160,000 | 5.00 | 130,000 | 940,000 |
| - | - | 1.40 | 95,000 | 5.00 | 135,000 | 850,000 |
| - | - | 1.40 | 95,000 | 5.00 | 135,000 | 825,000 |
| - | - | 2.40 | 35,000 | 5.00 | 120,000 | 765,000 |
| - | - | 2.40 | 35,000 | 5.00 | 125,000 | 755,000 |
| - | - | 2.40 | 35,000 | 5.00 | 130,000 | 775,000 |
| - | - | 2.40 | 35,000 | 5.00 | 135,000 | 820,000 |
| - | - | 2.40 | 40,000 | 5.00 | 990,000 | 1,695,000 |
| - | - | 2.40 | 40,000 | | - | 740,000 |
| - | - | 2.85 | 40,000 | | - | 775,000 |
| - | - | 2.85 | 40,000 | | - | 525,000 |
| - | - | 2.85 | 40,000 | | - | 550,000 |
| - | - | 2.85 | 45,000 | | - | 45,000 |
| - | - | 2.85 | 45,000 | | - | 45,000 |
| | <u>\$ 105,000</u> | | <u>\$ 1,255,000</u> | | <u>\$ 2,275,000</u> | <u>\$ 12,860,000</u> |

CITY OF STUART, IOWA
 BOND AND OTHER DEBT MATURITIES
 JUNE 30, 2014

Schedule 3
 (continued)

| Revenue Notes | | | | | |
|----------------------------|--|-------------------|---|-------------------|---------------------------|
| Year Ending June 30, | Sewer State Revolving Loans Issued December 9, 2009 | | Sewer Revenue Notes Issued December 15, 2009 | | Total Revenue Notes |
| | Interest | | Interest | | |
| | Rates | Amount | Rates | Amount | |
| 2015 | 3.00 | \$ 39,000 | 3.25 | \$ 75,000 | \$ 114,000 |
| 2016 | 3.00 | 40,000 | 3.25 | 80,000 | 120,000 |
| 2017 | 3.00 | 41,000 | 3.70 | 85,000 | 126,000 |
| 2018 | 3.00 | 42,000 | 3.70 | 85,000 | 127,000 |
| 2019 | 3.00 | 44,000 | 4.05 | 90,000 | 134,000 |
| 2020 | 3.00 | 45,000 | 4.05 | 95,000 | 140,000 |
| 2021 | 3.00 | 47,000 | | | 47,000 |
| 2022 | 3.00 | 48,000 | | | 48,000 |
| 2023 | 3.00 | 50,000 | | | 50,000 |
| 2024 | 3.00 | 51,000 | | | 51,000 |
| 2025 | 3.00 | 53,000 | | | 53,000 |
| 2026 | 3.00 | 55,000 | | | 55,000 |
| 2027 | 3.00 | 57,000 | | | 57,000 |
| 2028 | 3.00 | 59,000 | | | 59,000 |
| 2029 | 3.00 | 60,000 | | | 60,000 |
| 2030 | 3.00 | 62,000 | | | 62,000 |
| | | <u>\$ 793,000</u> | | <u>\$ 510,000</u> | <u>\$ 1,303,000</u> |

| Other Debt | | |
|----------------------------|----------|-------------------|
| CIPCO/USDA | | |
| Issued November 14, 2008 | | |
| Year Ending June 30, | Interest | |
| | Rates | Amount |
| 2015 | 0.00 | \$ 27,500 |
| 2016 | 0.00 | 30,000 |
| 2017 | 0.00 | 30,000 |
| 2018 | 0.00 | 30,000 |
| 2019 | 0.00 | 12,500 |
| | | <u>\$ 130,000</u> |

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 Honorable Mayor and
Members of the City Council
City of 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 by the Comptroller General of the United States, the financial statements of the government activities, the business-type activities, the aggregate discretely presented component unit, each major fund, and the aggregate remaining fund information of City of Stuart, Iowa, as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City of Stuart, Iowa's basic financial statements and have issued our report thereon dated September 26, 2014. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles.

Internal Control over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Stuart, Iowa's 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 City of Stuart, Iowa's internal control. Accordingly, we do not express an opinion on the effectiveness of City of Stuart, Iowa's 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 and Questioned Costs that we consider to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stuart, Iowa's financial statements are free from 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 and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2014, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Stuart, Iowa's Response to Findings

City of Stuart, Iowa's response to the findings identified in our audit is described in the accompanying Schedule of Findings. City of Stuart, Iowa's 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, Mickelson + Co., P.C.

September 26, 2014

CITY OF STUART, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2014

PART I. FINDINGS RELATED TO THE FINANCIAL STATEMENTS

2014-I-A Segregation of duties: A limited number of people have primary responsibility for most of the accounting and financial duties. As a result, some of the aspects of accounting internal controls which rely on adequate segregation of duties, for all reasonable purposes, are missing in the City of Stuart, Iowa.

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

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

Conclusion: Response acknowledged.

PART II. Other Findings Related to Required Statutory Reporting:

2014-II-1 Certified Budget: Disbursements during the year ended June 30, 2014, exceeded the amounts budgeted in the General Government Function prior to budget amendment and in the Debt Service function after the budget amendment Chapter 384.20 of the Code of Iowa states, in part, "that 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 have reviewed this recommendation and will amend the budget before disbursements are allowed to exceed the budget.

Conclusion: Response acknowledged.

2014-II-2 Questionable Disbursements: During the audit, we noted no expenditures for parties, banquets or other entertainment for employees or Council members that we believe may constitute an unlawful expenditure of public funds as defined in an Attorney General's opinion dated April 25, 1979.

2014-II-3 Travel Expense: No expenditures of the City of Stuart, Iowa's money for travel expenses of spouses of the City of Stuart, Iowa's Water Works' or officials or employees were noted.

2014-II-4 Business Transactions: We noted no business transactions between the City of Stuart, Iowa and the City of Stuart, Iowa officials or employees.

CITY OF STUART, IOWA
SCHEDULE OF FINDINGS
Year Ended June 30, 2014

2014-II-5 Bond Coverage: Surety bond coverage of the City of Stuart, Iowa’s officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

2014-II-6 Council Minutes: No transactions were found that we believe should have been approved in the Council minutes but were not.

2014-II-7 Revenue Bonds: The City of Stuart, Iowa has complied with the provisions of the revenue bond indentures.

2014-II-8 Deposits and Investments: The City of Stuart, Iowa has adopted a written investment policy as required by Chapter 12B.10B of the Code of Iowa.

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

2014-II-9 Payment of General Obligation Notes: Certain general obligation notes were paid from the Capital Projects Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation bonds, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation: The City should transfer future debt funding contributions from the Capital Projects Fund to the Debt Service Fund. Payments of the notes should then be disbursed from the Debt Service Fund.

Response: We have reviewed this recommendation and will make the appropriate transfers.

Conclusion: Response acknowledged.

2014-II-10 Annual Financial Report: Chapter 384.22 of the Code of Iowa requires the City’s Annual Financial Report contain a “summary for the preceding fiscal year of all collections and receipts, all accounts due the city and all expenditures...” The City’s Annual Financial Report did not include all receipts and expenditures, debt service amounts, of the City for the fiscal year ending June 30, 2014.

Recommendation: The City should ensure that all amounts for the City for the fiscal year are properly included and reported on the Annual Financial Report.

Response: We have reviewed the recommendation and will comply.

Conclusion: Response acknowledged.