

CITY OF STUART
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2017

Table of Contents

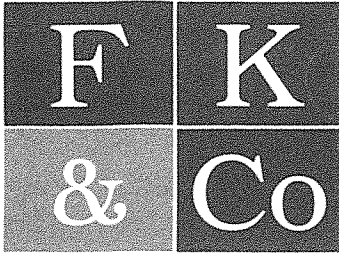
	<u>Page</u>
Officials	3
Independent Auditor's Report	5-7
Management's Discussion and Analysis	8-13
Basic Financial Statements:	
	<u>Exhibit</u>
Government-wide Financial Statement:	
Cash Basis Statement of Activities and Net Position	A 15
Governmental Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 16
Proprietary Fund Financial Statement:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 17
Notes to Financial Statements	18-26
Other Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds	28
Notes to Other Information - Budgetary Reporting	29
Schedule of City's Proportionate Share of the Net Pension Liability	30
Schedule of City Contributions	31
Notes to Other Information - Pension Liability	32
Supplementary Information:	
	<u>Schedule</u>
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 34
Schedule of Indebtedness	2 35
Bond and Note Maturities	3 36
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	4 37
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>	38-39
Schedule of Findings	40-46

City of Stuart

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Dick Cook	Mayor	January 1, 2018
Bryan Beldon	Mayor Pro tem	January 1, 2018
James Morgan	Council Member	January 1, 2020
Neal Crawford	Council Member	January 1, 2018
Matt Funk	Council Member	January 1, 2018
Eric Weber	Council Member	January 1, 2020
Ashraf M. Ashour	Administrator/Clerk/Treasurer	Indefinite
Brick Gentry, P.C.	Attorney	Indefinite
Wild, Baxter & Sand, P.C.	Attorney	Indefinite

City of Stuart



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa, (City) as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements 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 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 U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves 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 City'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 City'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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Opinions

Basis for Adverse Opinion on Aggregate Discretely Presented Component Units

The financial statements referred to above do not include financial data for the City's legally separate component units. Accounting principles applicable to the cash basis of accounting require financial data for these component units to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include the financial data for its component units. The City has not issued such reporting entity financial statements. The amounts by which this departure would affect the receipts, disbursements and the cash basis balances of the aggregate discretely presented component units has not been determined.

Adverse Opinion on Aggregate Discretely Presented Component Units

In our opinion, because of the significance of the matter described in the "Basis for Adverse Opinion on Aggregate Discretely Presented Component Units" paragraph, the financial statements referred to above do not present fairly the financial position of the aggregate discretely presented component units of the City as of June 30, 2017, or the changes in financial position thereof for the year then ended in conformity with the basis of accounting described in Note 1.

Unmodified 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, each major fund and the aggregate remaining fund information of the City as of June 30, 2017, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As discussed 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 opinions are not modified with respect to this matter.

Other Matters

Supplementary and Other Information

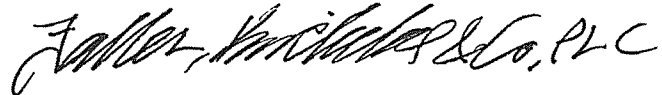
Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2016 (which is not presented herein) and expressed unmodified opinions on the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information which were prepared on the basis of cash receipts and disbursements. We expressed an adverse opinion on the financial statements of the aggregate discretely presented component units due to the omission of the legally separate component units. Another auditor previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the two years ended June 30, 2014 (which are not presented herein) and expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a required part of the basic financial statements.

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 basic 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 basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. Because of the significance of the matter described in the "Basis for Adverse Opinion on the Aggregate Discretely Presented Component Units" paragraph above, it is inappropriate to, and we do not, express an opinion on the supplementary information.

The other information, the City's Management's Discussion and Analysis, the Budgetary Comparison Information, the Schedule of the City's Proportionate Share of the Net Pension Liability and the Schedule of City Contributions on pages 8 through 13 and 28 through 32 has not been subjected to the auditing procedures applied in the audit of the basic statements 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 our report dated November 1, 2017 on our consideration of the City's 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 solely 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 effectiveness of the City's 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 the City's internal control over financial reporting and compliance.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
November 1, 2017

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stuart (City) 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, 2017. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2017 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 13.2%, or approximately \$836,000 from fiscal year 2016 to fiscal year 2017. Bond proceeds decreased by \$830,000 due to the reduction of new debt issued in fiscal year 2017.
- Disbursements of the City's governmental activities increased by 65.6%, or approximately \$2,976,000, in fiscal year 2017 from fiscal year 2016. Debt service and capital projects disbursements increased approximately \$1,417,000 and \$1,478,000, respectively.
- The City's total cash basis net position decreased 36.7%, or approximately \$1,978,000, from June 30, 2016 to June 30, 2017. Of this amount, the cash basis net position of the governmental activities decreased approximately \$1,686,000 and the cash basis net position of the business type activities decreased approximately \$292,000.

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 Statement consists of a Cash Basis Statement of Activities and Net 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 financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information 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 of the City's budget for the year and the City's proportionate share of the net pension liability and related contributions.

Supplementary Information provides detailed information about the non-major governmental funds and the City's 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 results of operation of the 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 the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

The Cash Basis Statement of Activities and Net Position present the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Cash Basis 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 sanitary sewer system. This activity is financed primarily by user charges.

Fund Financial Statements

The City has three 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 Debt Service Fund, 4) the Capital Projects 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 are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

2) Proprietary funds account for the City's Enterprise Fund. Enterprise Funds are used to report business type activities. The City maintains an Enterprise Fund to provide separate information for the Sewer Fund, considered to be a major fund of the City.

The required financial statements for proprietary funds are a Statement of Cash Receipts, Disbursements and Changes in Cash Balances.

Reconciliations between the government-wide financial statement and the fund financial statements follow the fund financial statements.

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 sharply from a year ago, decreasing from approximately \$4.506 million to approximately \$2.820 million. 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
(Expressed in Thousands)

	Year Ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service	\$ 435	360
Operating grants, contributions and restricted interest	274	272
Capital grants, contributions and restricted interest	167	562
General receipts:		
Property tax	737	804
Tax increment financing	1,129	901
Local option sales tax	158	146
Hotel/Motel tax	87	96
Grants and contributions not restricted to specific purposes	-	112
Unrestricted interest on investments	2	2
Rent	17	17
Bond proceeds	2,132	2,962
Miscellaneous	340	74
Sale of capital assets	1	7
Total receipts	<u>5,479</u>	<u>6,315</u>
Disbursements:		
Public safety	605	606
Public works	469	225
Culture and recreation	191	177
Community and economic development	280	506
General government	401	351
Debt service	2,505	1,088
Capital projects	3,064	1,586
Total disbursements	<u>7,515</u>	<u>4,539</u>
Change in cash basis net position before transfers	(2,036)	1,776
Transfers, net	<u>350</u>	-
Change in cash basis net position	(1,686)	1,776
Cash basis net position beginning of year	<u>4,506</u>	<u>2,730</u>
Cash basis net position end of year	<u>\$ 2,820</u>	<u>4,506</u>

The City's total receipts for governmental activities decreased 13.2%, or approximately \$836,000 from the prior year. The total cost of all programs and services increased approximately \$2,976,000, or 65.6%, with no new programs added this year. The decrease in receipts was the result of less bond proceeds received in fiscal year 2017. The increase in program costs was the result of an increase in debt service and capital projects disbursements of approximately \$1,417,000 and \$1,478,000, respectively, from fiscal year 2016 to fiscal year 2017.

The City decreased the property tax dollar request for fiscal year 2017. Property tax receipts decreased by approximately \$67,000 in fiscal year 2017. Property tax receipts are budgeted to remain relatively the same in fiscal year 2018.

The cost of all governmental activities this year was approximately \$7.515 million compared to approximately \$4.539 million last year. However, as shown on the Statement of Activities and Net Position on page 15, the amount taxpayers ultimately financed for these activities was approximately \$6.639 million because some of the cost was paid by those directly benefited from the programs (approximately \$435,000) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (approximately \$441,000). The City paid for the remaining “public benefit” portion of governmental activities with property tax (some of which could only be used for certain programs) and with other receipts, such as interest, local option sales tax and miscellaneous receipts. Overall, the City’s governmental activities program receipts, including intergovernmental aid and fees for service, decreased in fiscal year 2017 from approximately \$1,194,000 to approximately \$876,000, principally due to decreased capital grants and contributions in fiscal year 2017 compared to fiscal year 2016.

Changes in Cash Basis Net Position of Business Type Activities (Expressed in Thousands)		
	Year Ended June 30,	
	2017	2016
Receipts:		
Program receipts:		
Charges for service:		
Sewer	\$ 369	357
General receipts:		
Unrestricted interest on investments	1	1
Total receipts	<u>370</u>	<u>358</u>
Disbursements:		
Sewer	312	339
Total disbursements	<u>312</u>	<u>339</u>
Change in cash basis net position	58	19
Transfers, net	<u>(350)</u>	-
Change in cash basis net position	(292)	19
Cash basis net position beginning of year	<u>887</u>	<u>868</u>
Cash basis net position end of year	<u>\$ 595</u>	<u>887</u>

Total business type activities receipts for the fiscal year were approximately \$.370 million compared to approximately \$.358 million last year. The increase was primarily due to an increase in charges for service. The cash balance decreased approximately \$292,000 from the prior year. Total disbursements for the fiscal year decreased 7.96% to approximately .312 million.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City completed the year, its governmental funds reported a combined fund balance of \$2,820,478, a decrease of more than \$1,685,000 below last year’s total of \$4,505,926. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased by \$538,354 from the prior year to \$1,670,011. The City is attempting to maintain the General Fund on a status quo basis from year to year.

- The Special Revenue, Urban Renewal Tax Increment Fund cash balance decreased by \$27,117 from the prior year to \$119,695. The monies in this fund can only be spent on urban renewal related costs. The decrease was just due to using some reserves to pay some current fiscal year costs from this fund.
- The Debt Service Fund cash balance increased by \$21,113 from the prior year to \$94,522. In the fiscal year, the City just levied more than the related costs incurred in this fund.
- The Capital Projects Fund cash balance decreased by \$2,086,242 to \$359,144. The balance in this fund was used for major street construction project costs in fiscal year 2017.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Sewer Fund cash balance decreased by \$292,159 to \$595,227. The City transferred \$350,000 from this fund in fiscal year 2017. This was the reason for the decrease in this fund in fiscal year 2017.

BUDGETARY HIGHLIGHTS

During the course of the year, the City amended its budget one time.

The City's receipts were \$2,664,372 less than budgeted. This was primarily due to the City receiving less intergovernmental receipts than anticipated.

The City's disbursements were \$2,336,420 less than budgeted. Disbursements in the community and economic development and the business type activities functions were \$1,080,226 and \$910,053 less than the amended budget amounts.

Even though the City did not go over budget in total, disbursements in the debt service function were \$620,870 more than the amended budget amount. This occurred because some debt service payments were budgeted in the community and economic development function instead of the debt service function.

The original budget for fiscal year 2017 was approved by the City Council on March 14, 2016, and later amended on May 8, 2017. The budget amendment was necessitated because of capital improvement projects and debt service costs.

DEBT ADMINISTRATION

At June 30, 2017, the City had approximately \$12,532,000 in bonds and other long-term debt outstanding, compared to approximately \$12,632,000 last year, as shown below.

Outstanding Debt at Year-End (Expressed in Thousands)		
	June 30,	
	2017	2016
Annual appropriation general obligation bonds and notes	\$ 10,735	10,518
General obligation bonds and notes	811	975
Sewer revenue bonds	943	1,069
Other debt	43	70
Total	\$ 12,532	12,632

Debt increased because the City incurred an additional \$2,061,000 in new debt during the fiscal year. However, scheduled debt payments and an early refunding reduced debt amounts outstanding during the fiscal year, for a net debt decrease of \$100,000 during the fiscal year.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$811,000 is significantly below its constitutional debt limit of \$4,467,755. Additional information about the City's long-term debt is presented in Note 3 to the financial statements.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

The City's elected and appointed officials and citizens considered many factors when setting the fiscal year 2017-18 budget, tax rates, and fees that will be charged for various City activities. One of those factors is the economy and the rising costs of employee benefits.

These indicators were taken into account when adopting the budget for fiscal year 2018. Amounts available for appropriation in the operating budget are approximately \$7.4 million, a \$1.3 million decrease from the 2017 budget year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

The 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.

Basic Financial Statements

Cash Basis Statement of Activities and Net Position

As of and for the year ended June 30, 2017

	Program Receipts				Net (Disbursements) Receipts and Changes in Cash Basis Net Position		
	Disbursements	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Governmental Activities	Business Type Activities	Total
Functions / Programs:							
Governmental activities:							
Public safety	\$ 605,043	209,593	51,033	7,400	(337,017)	-	(337,017)
Public works	468,681	118,175	205,712	-	(144,794)	-	(144,794)
Culture and recreation	190,734	55,324	17,115	-	(118,295)	-	(118,295)
Community and economic development	280,204	-	-	-	(280,204)	-	(280,204)
General government	400,751	51,444	-	-	(349,307)	-	(349,307)
Debt service	2,504,908	-	-	-	(2,504,908)	-	(2,504,908)
Capital projects	3,064,348	-	-	159,744	(2,904,604)	-	(2,904,604)
Total governmental activities	7,514,669	434,536	273,860	167,144	(6,639,129)	-	(6,639,129)
Business type activities:							
Sewer	312,056	368,357	-	-	-	56,301	56,301
Total business type activities	312,056	368,357	-	-	-	56,301	56,301
Total	\$ 7,826,725	802,893	273,860	167,144	(6,639,129)	56,301	(6,582,828)
General Receipts and Transfers:							
Property and other city tax levied for:							
General purposes					418,698	-	418,698
Debt service					318,433	-	318,433
Tax increment financing					1,129,060	-	1,129,060
Local option sales tax					158,242	-	158,242
Hotel/Motel tax					87,331	-	87,331
Unrestricted interest on investments					1,786	1,417	3,203
Rent					17,025	-	17,025
Bond proceeds (net of \$70,482 premium)					2,131,482	-	2,131,482
Miscellaneous					340,404	123	340,527
Sale of capital assets					1,220	-	1,220
Transfers					350,000	(350,000)	-
Total general receipts and transfers					4,953,681	(348,460)	4,605,221
Change in cash basis net position					(1,685,448)	(292,159)	(1,977,607)
Cash basis net position beginning of year					4,505,926	887,386	5,393,312
Cash basis net position end of year					\$ 2,820,478	595,227	3,415,705
Cash Basis Net Position							
Restricted:							
Nonexpendable:							
Cemetery perpetual care					\$ 73,111	-	73,111
Expendable:							
Streets					233,852	-	233,852
Urban renewal purposes					119,695	-	119,695
Debt service					94,522	106,322	200,844
Capital projects					359,144	-	359,144
Other purposes					270,143	-	270,143
Unrestricted					1,670,011	488,905	2,158,916
Total cash basis net position					\$ 2,820,478	595,227	3,415,705

See notes to financial statements.

City of Stuart

Exhibit B

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2017

	Special Revenue					Total
	General	Urban Renewal Tax Increment	Debt Service	Capital Projects	Nonmajor	
Receipts:						
Property tax	\$ 314,655	-	318,433	-	104,043	737,131
Tax increment financing	-	1,129,060	-	-	-	1,129,060
Other city tax	245,574	-	-	-	-	245,574
Licenses and permits	51,419	-	-	-	-	51,419
Use of money and property	17,228	30	6	-	1,546	18,810
Intergovernmental	49,271	-	-	-	204,589	253,860
Charges for service	342,980	-	-	-	-	342,980
Special assessments	-	-	-	-	4,916	4,916
Miscellaneous	401,953	-	-	159,796	1,020	562,769
Total receipts	1,423,080	1,129,090	318,439	159,796	316,114	3,346,519
Disbursements:						
Operating:						
Public safety	532,298	-	-	-	72,745	605,043
Public works	177,568	-	-	-	291,113	468,681
Culture and recreation	177,629	-	-	-	13,105	190,734
Community and economic development	-	280,204	-	-	-	280,204
General government	359,451	-	-	-	41,300	400,751
Debt service	-	-	2,504,908	-	-	2,504,908
Capital projects	-	-	-	3,064,348	-	3,064,348
Total disbursements	1,246,946	280,204	2,504,908	3,064,348	418,263	7,514,669
Excess (deficiency) of receipts over (under) disbursements	176,134	848,886	(2,186,469)	(2,904,552)	(102,149)	(4,168,150)
Other financing sources (uses):						
Bond proceeds (net of \$70,482 premium)	46,000	-	1,137,761	947,721	-	2,131,482
Sale of capital assets	1,220	-	-	-	-	1,220
Transfers in	350,000	-	1,069,821	-	35,000	1,454,821
Transfers out	(35,000)	(876,003)	-	(129,411)	(64,407)	(1,104,821)
Total other financing sources (uses)	362,220	(876,003)	2,207,582	818,310	(29,407)	2,482,702
Change in cash balances	538,354	(27,117)	21,113	(2,086,242)	(131,556)	(1,685,448)
Cash balances beginning of year	1,131,657	146,812	73,409	2,445,386	708,662	4,505,926
Cash balances end of year	\$1,670,011	119,695	94,522	359,144	577,106	2,820,478
Cash Basis Fund Balances						
Nonspendable:						
Cemetery perpetual care	\$ -	-	-	-	73,111	73,111
Restricted for:						
Streets	-	-	-	-	233,852	233,852
Urban renewal purposes	-	119,695	-	-	-	119,695
Debt service	-	-	94,522	-	-	94,522
Capital projects	-	-	-	359,144	-	359,144
Other purposes	-	-	-	-	270,143	270,143
Unassigned	1,670,011	-	-	-	-	1,670,011
Total cash basis fund balances	\$1,670,011	119,695	94,522	359,144	577,106	2,820,478

See notes to financial statements.

City of Stuart

Exhibit C

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2017

	<u>Enterprise</u>
	<u>Sewer</u>
Operating receipts:	
Charges for service	\$ 368,357
Total operating receipts	<u>368,357</u>
Operating disbursements:	
Business type activities	<u>149,068</u>
Total operating disbursements	<u>149,068</u>
Excess of operating receipts over operating disbursements	<u>219,289</u>
Non-operating receipts (disbursements):	
Interest on investments	1,417
Miscellaneous	123
Debt service	<u>(162,988)</u>
Net non-operating receipts (disbursements)	<u>(161,448)</u>
Excess of receipts over disbursements	<u>57,841</u>
Other financing sources (uses):	
Transfers out	<u>(350,000)</u>
Total other financing sources (uses)	<u>(350,000)</u>
Change in cash balances	(292,159)
Cash balances beginning of year	<u>887,386</u>
Cash balances end of year	<u>\$ 595,227</u>
Cash Basis Fund Balances	
Restricted for debt service	\$ 106,322
Unrestricted	<u>488,905</u>
Total cash basis fund balances	<u>\$ 595,227</u>

See notes to financial statements.

City of Stuart

Notes to Financial Statements

June 30, 2017

(1) Summary of Significant Accounting Policies

The City of Stuart (City) 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 governmental services. The City also provides sewer for its citizens.

A. Reporting Entity

Except as discussed below, for financial reporting purposes, the City 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 (the primary government) and exclude the City's component units. The component units discussed below are not included in the City's reporting entity although their operational or financial relationships with the City are significant.

Excluded Component Units

The Stuart Municipal Utilities was established under Chapter 388 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific burdens on the City. The Municipal Utilities is governed by a five-member board appointed by the Mayor and approved by the City Council. The Utilities' operating budget is subject to the approval of the City Council. Complete financial statements of the component unit, which will issue separate financial statements, can be obtained from the Municipal Utilities administrative office.

The Stuart Library Foundation was established under Chapter 504 of the Code of Iowa, is legally separate from the City, but has the potential to provide specific benefits to or impose specific financial burdens on the City. The purpose of the Stuart Library Foundation is to support the activities of the Stuart, Iowa Public Library.

Jointly Governed Organizations

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

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Nonexpendable restricted net position is subject to externally imposed stipulations which require the cash balance to be maintained permanently by the City, including the City's Permanent Fund.

Expendable 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. Enabling legislation did not result in any restricted net position.

Unrestricted net position consists of cash balances not meeting the definition of the preceding categories. Unrestricted net position is often subject to constraints imposed by management which can be removed or modified.

The Cash Basis 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:

The General Fund is the general operating fund of the City. All general tax receipts from general and emergency levies 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.

The Special Revenue, Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Debt Service Fund is utilized to account for property tax and other receipts to be used for the payment of interest and principal on the City's general long-term debt.

The Capital Projects Fund is used to account for all resources used in the acquisition and construction of capital facilities.

The City reports the following major proprietary fund:

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

C. 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 is 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.

When a disbursement in governmental funds can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the disbursement toward restricted fund balance and then to less-restrictive classifications – committed, assigned and then unassigned fund balances.

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 proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. 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 the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the debt service function.

(2) **Cash and Pooled Investments**

The City's deposits in banks at June 30, 2017 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 the 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; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had no investments meeting the disclosure requirements of Government Accounting Standards Board Statement No. 72.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

(3) **Bonds and Notes Payable and Other Debt**

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

Year Ending June 30,	Annual Appropriation			
	General Obligation Bonds and Notes		General Obligation Bonds and Notes	
	Principal	Interest	Principal	Interest
2018	\$ 1,114,000	389,848	175,500	16,491
2019	1,170,000	353,270	110,500	14,328
2020	1,301,000	314,213	95,000	12,595
2021	1,282,000	272,123	35,000	11,265
2022	1,293,000	230,335	35,000	10,425
2023-2027	4,145,000	556,799	190,000	39,165
2028-2031	430,000	26,765	170,000	12,398
	<u>\$10,735,000</u>	<u>2,143,353</u>	<u>811,000</u>	<u>116,667</u>

Year Ending June 30,	Sewer Revenue Bonds		Other Debt		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2018	\$ 127,000	30,827	30,000	-	1,446,500	437,166
2019	134,000	26,422	12,500	-	1,427,000	394,020
2020	140,000	21,458	-	-	1,536,000	348,266
2021	47,000	16,260	-	-	1,364,000	299,648
2022	48,000	14,850	-	-	1,376,000	255,610
2023-2027	266,000	51,630	-	-	4,601,000	647,594
2028-2031	181,000	10,950	-	-	781,000	50,113
	<u>\$ 943,000</u>	<u>172,397</u>	<u>42,500</u>	<u>-</u>	<u>12,531,500</u>	<u>2,432,417</u>

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$1,005,414 of general obligation bonds and notes principal and interest was paid from the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Fund during the year ended June 30, 2017. Appropriate adjustments were made for financial statement purposes.

Annual Appropriation General Obligation Refunding Bonds, Series 2017A

On May 31, 2017, the City issued \$1,135,000 of annual appropriation general obligation refunding bonds, Series 2017A. The bonds were issued to refund the outstanding balance of \$1,110,000 of the \$1,700,000 annual appropriation capital loan notes issued December 18, 2007.

For the refunding portion of the bond issuance, the City obtained an economic gain (difference between the present value of the debt service payments on the old and new debt) of approximately \$91,000 on the refunding.

Annual Appropriation General Obligation Bonds and Notes

The future principal and interest payment amounts identified in the annual appropriation general obligation bonds and notes column are based on the assumption that the City will appropriate funds every year to meet the above obligations. However, if the City does not appropriate funds for a year, the City's obligations in relation to the bonds and notes principal and interest shall terminate and become null and void on the last day of the fiscal year for which the necessary funds were appropriated.

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$1,770,000 of sewer revenue bonds issued in December, 2009. Proceeds from the bonds provided financing for sewer capital project construction and to pay off an old bond issue. The bonds are payable solely from sewer customer net receipts and are payable through 2030. Annual principal and interest payments on the bonds are expected to require less than 74% of net receipts. The total principal and interest remaining to be paid on the bonds is \$1,115,397. For the current year, principal and interest paid and total customer net receipts were \$161,202 and \$219,289, respectively.

The resolutions providing for the issuance of the revenue bonds include the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the note principal and interest payments when due.
- (c) A reserve fund should be maintained at an amount of \$94,000.
- (d) User rates shall be established at a level which produces and maintains net receipts at a level not less than 110% for the sewer revenue bonds of the amount of principal and interest on the bonds falling due in the same year.

The City did not properly fund the sewer revenue bond sinking account as required.

Other Debt

On November 11, 2008, the City entered into a note agreement with CIPCO/USDA for financing the cost of improvements at the aquatic center for \$300,000 at 0% interest. Principal payments of \$2,500 per month are due monthly beginning December 14, 2008. The balance owed at June 30, 2017 is \$42,500.

(4) Pension Plan

Plan Description - IPERS membership is mandatory for employees of the City, except for those covered by another retirement system. Employees of the City are provided with pensions through a cost-sharing multiple employer defined benefit pension plan administered by Iowa Public Employees' Retirement System (IPERS). IPERS issues a stand-alone financial report which is available to the public by mail at 7401 Register Drive P.O. Box 9117, Des Moines, Iowa 50306-9117 or at www.ipers.org.

IPERS benefits are established under Iowa Code chapter 97B and the administrative rules thereunder. Chapter 97B and the administrative rules are the official plan documents. The following brief description is provided for general informational purposes only. Refer to the plan documents for more information.

Pension Benefits – A regular member may retire at normal retirement age and receive monthly benefits without an early-retirement reduction. Normal retirement age is age 65, anytime after reaching age 62 with 20 or more years of covered employment or when the member's years of service plus the member's age at the last birthday equals or exceeds 88, whichever comes first. These qualifications must be met on the member's first month of entitlement to benefits. Members cannot begin receiving retirement benefits before age 55. The formula used to calculate a Regular member's monthly IPERS benefit includes:

- A multiplier (based on years of service).
- The member's highest five-year average salary, except members with service before June 30, 2012 will use the highest three-year average salary as of that date if it is greater than the highest five-year average salary.

Protection occupation members may retire at normal retirement age, which is generally age 55. The formula used to calculate a protection occupation member's monthly IPERS benefit includes:

- 60% of average salary after completion of 22 years of service, plus an additional 1.5% of average salary for more than 22 years of service but not more than 30 years of service.
- The member's highest three-year average salary.

If a member retires before normal retirement age, the member's monthly retirement benefit will be permanently reduced by an early-retirement reduction. The early-retirement reduction is calculated differently for service earned before and after July 1, 2012. For service earned before July 1, 2012, the reduction is 0.25% for each month that the member receives benefits before the member's earliest normal retirement age. For service earned starting July 1, 2012, the reduction is 0.50% for each month that the member receives benefits before age 65.

Generally, once a member selects a benefit option, a monthly benefit is calculated and remains the same for the rest of the member's lifetime. However, to combat the effects of inflation, retirees who began receiving benefits prior to July 1990 receive a guaranteed dividend with their regular November benefit payments.

Disability and Death Benefits - A vested member who is awarded federal Social Security disability or Railroad Retirement disability benefits is eligible to claim IPERS benefits regardless of age. Disability benefits are not reduced for early retirement. If a member dies before retirement, the member's beneficiary will receive a lifetime annuity or a lump-sum payment equal to the present actuarial value of the member's accrued benefit or calculated with a set formula, whichever is greater. When a member dies after retirement, death benefits depend on the benefit option the member selected at retirement.

Contributions - Contribution rates are established by IPERS following the annual actuarial valuation which applies IPERS' Contribution Rate Funding Policy and Actuarial Amortization Method. Statute limits the amount rates can increase or decrease each year to 1 percentage point. IPERS Contribution Rate Funding Policy requires that the actuarial contribution rate be determined using the "entry age normal" actuarial cost method and the actuarial assumptions and methods approved by the IPERS Investment Board. The actuarial contribution rate covers normal cost plus the unfunded actuarial liability payment based on a 30-year amortization period. The payment to amortize the unfunded actuarial liability is determined as a level percentage of payroll based on the Actuarial Amortization Method adopted by the Investment Board.

In fiscal year 2017, pursuant to the required rate, Regular members contributed 5.95% of covered payroll and the City contributed 8.93% of covered payroll, for a total rate of 14.88%. Protection occupation members contributed 6.56% of covered payroll and the City contributed 9.84% of covered payroll, for a total rate of 16.40%.

The City's contributions to IPERS for the year ended June 30, 2017 were \$85,636.

Net Pension Liability, Pension Expense, Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – At June 30, 2017, the City reported a liability of \$584,884 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2016 and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on the City's share of contributions to IPERS relative to the contributions of all IPERS participating employers. At June 30, 2016, the City's proportion was 0.0092937%, which was an increase of 0.001222% from its proportion measured as of June 30, 2015.

For the year ended June 30, 2017, the City's pension expense, deferred outflows of resources and deferred inflows of resources totaled \$93,958, \$246,002 and \$119,675, respectively.

There were no non-employer contributing entities to IPERS.

Actuarial Assumptions - The total pension liability in the June 30, 2016 actuarial valuation was determined using the following actuarial assumptions, applied to all periods included in the measurement, as follows:

Rate of Inflation (effective June 30, 2014)	3.00% per annum.
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Rates of salary increase (effective June 30, 2010)	4.00 to 17.00%, average, including inflation. Rates vary by membership group.
Long-term investment rate of return (effective June 30, 1996)	7.50% compounded annually, net of investment expense, including inflation.
Wage growth (effective June 30, 1990)	4.00% per annum, based on 3.00% inflation and 1.00% real wage inflation.

The actuarial assumptions used in the June 30, 2016 valuation were based on the results of actuarial experience studies with dates corresponding to those listed above.

Mortality rates were based on the RP-2000 Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

The long-term expected rate of return on IPERS' investments was determined using a building-block method in which best-estimate ranges of expected future real rates (expected returns, net of investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Real Rate of Return
Core plus fixed income	28 %	1.90 %
Domestic equity	24	5.85
International equity	16	6.32
Private equity/debt	11	10.31
Real estate	8	3.87
Credit opportunities	5	4.48
U.S. TIPS	5	1.36
Other real assets	2	6.42
Cash	1	(0.26)
Total	100 %	

Discount Rate - The discount rate used to measure the total pension liability was 7.50%. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the contractually required rate and that contributions from the City will be made at contractually required rates, actuarially determined. Based on those assumptions, IPERS' fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on IPERS' investments was applied to all periods of projected benefit payment to determine the total pension liability.

Sensitivity of the City's Proportionate Share of the Net Pension Liability to Changes in the Discount Rate - The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50%, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1% lower (6.50%) or 1% higher (8.50%) than the current rate.

	1% Decrease (6.50%)	Discount Rate (7.50%)	1% Increase (8.50%)
City's proportionate share of the net pension liability	\$ 1,104,403	584,884	146,607

IPERS' Fiduciary Net Position - Detailed information about IPERS' fiduciary net position is available in the separately issued IPERS financial report which is available on IPERS' website at www.ipers.org.

(5) Other Postemployment Benefits (OPEB)

Plan Description – The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees, retirees and their spouses. There are 13 active and 2 retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Line Construction Benefit Fund. Retirees under age 65 pay the same premium for the medical/prescription drug benefit as active employees.

Funding Policy – The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and the plan members are \$1,197 for all types of coverage. For the year ended June 30, 2017, the City contributed \$217,136, and plan members eligible for benefits contributed \$7,537 to the plan.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2017 is as follows:

Transfer to	Transfer from	Amount
General	Enterprise: Sewer	\$ 350,000
Special Revenue: Employee Benefits	General	35,000
Debt Service	Special Revenue: Urban Renewal Tax Increment Road Use Tax Capital Projects	876,003 64,407 129,411 <u>1,069,821</u>
Total		<u>\$ 1,454,821</u>

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

(7) Risk Management

The City 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.

(8) Development Agreements

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental property tax paid by the developer in exchange for the construction or improvement of buildings. For housing related development agreements, each payment represents the incremental property tax received by the City with respect to the incremental value of the property, reduced by the minimum amount required by Section 403.22 of the Code of Iowa. The related low and moderate set aside amount shall be retained by the City for the purpose of providing assistance to low and moderate income families. The remaining total to be paid by the City under the agreements is not to exceed \$5,283,530.

The City rebated \$227,704 during fiscal year 2017. The outstanding balance of the agreements at June 30, 2017 subject to annual appropriation was \$5,283,530.

(9) Tax Abatements

Governmental Accounting Standards Board Statement No. 77 defines tax abatements as a reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments.

City Tax Abatements

The City provides tax abatements for urban renewal and economic development projects with tax increment financing as provided for in Chapters 15A and 403 of the Code of Iowa. For these types of projects, the City enters into agreements with developers which require the City, after developers meet the terms of the agreements, to rebate a portion of the property tax paid by the developers, to pay the developers an economic development grant or to pay the developers a predetermined dollar amount. No other commitments were made by the City as part of these agreements.

For the year ended June 30, 2017, the City abated \$227,704 of property tax under the urban renewal and economic development projects.

(10) Contingency

The City participates in a number of Federal and State grant/loan programs. These programs are subject to program compliance audits by the grantors or their representatives. Entitlement to these resources is generally conditional upon compliance with the terms and conditions of grant and loan agreements and applicable federal and state regulations, including the expenditure of resources for allowable purposes. Any disallowance resulting from a federal or state audit may become a liability to the City. The City's management believes such revisions or disallowances, if any, will not be material to the City.

(11) Subsequent Events

The City has evaluated all subsequent events through November 1, 2017, the date the financial statements were available to be issued.

(12) New Accounting Pronouncement

The City adopted the tax abatement disclosure guidance set forth in Governmental Accounting Standards Board Statement No. 77, Tax Abatement Disclosures. The Statement sets forth guidance for the disclosure of information about the nature and magnitude of tax abatements which will make these transactions more transparent to financial statement users. Adoption of the guidance did not have an impact on amounts reported in the financial statements. The Notes to Financial Statements include information about tax abatements of other entities which impact the City.

(13) Prospective Accounting Change

The Governmental Accounting Standards Board has issued Statement No. 75, Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions. This Statement will be implemented for the fiscal year ending June 30, 2018. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with postemployment benefits other than pensions, including additional note disclosures and required supplementary information.

Other Information

City of Stuart

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances -
Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds

Other Information

Year ended June 30, 2017

	Governmental Funds Actual	Proprietary Funds Actual	(Unaudited)		Total	Budgeted Amounts		Final to Total Variance
			Component Unit			Original	Final	
			Stuart	Municipal Utilities				
Receipts:								
Property tax	\$ 737,131	-	-	-	737,131	681,014	681,014	56,117
Tax increment financing	1,129,060	-	-	-	1,129,060	1,360,430	1,360,430	(231,370)
Other city tax	245,574	-	-	-	245,574	229,759	229,759	15,815
Licenses and permits	51,419	-	-	-	51,419	8,275	8,275	43,144
Use of money and property	18,810	1,417	10,023	-	30,250	18,622	18,622	11,628
Intergovernmental	253,860	-	-	-	253,860	2,836,354	2,836,354	(2,582,494)
Charges for service	342,980	368,357	2,634,967	-	3,346,304	3,439,237	3,539,237	(192,933)
Special assessments	4,916	-	-	-	4,916	-	4,200	716
Miscellaneous	562,769	123	252,113	-	815,005	-	600,000	215,005
Total receipts	3,346,519	369,897	2,897,103	-	6,613,519	8,573,691	9,277,891	(2,664,372)
Disbursements:								
Public safety	605,043	-	-	-	605,043	559,425	705,425	100,382
Public works	468,681	-	-	-	468,681	497,916	557,916	89,235
Culture and recreation	190,734	-	-	-	190,734	140,693	230,693	39,959
Community and economic development	280,204	-	-	-	280,204	1,360,430	1,360,430	1,080,226
General government	400,751	-	-	-	400,751	210,534	502,534	101,783
Debt service	2,504,908	-	-	-	2,504,908	384,038	1,884,038	(620,870)
Capital projects	3,064,348	-	-	-	3,064,348	2,500,000	3,700,000	635,652
Business type activities	-	312,056	2,582,866	-	2,894,922	2,916,975	3,804,975	910,053
Total disbursements	7,514,669	312,056	2,582,866	-	10,409,591	8,570,011	12,746,011	2,336,420
Excess (deficiency) of receipts over (under) disbursements	(4,168,150)	57,841	314,237	-	(3,796,072)	3,680	(3,468,120)	(327,952)
Other financing sources, net	2,482,702	(350,000)	-	-	2,132,702	-	2,250,000	(117,298)
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(1,685,448)	(292,159)	314,237	-	(1,663,370)	3,680	(1,218,120)	(445,250)
Balances beginning of year	4,505,926	887,386	2,299,589	-	7,692,901	5,722,937	5,722,937	1,969,964
Balances end of year	\$ 2,820,478	595,227	2,613,826	-	6,029,531	5,726,617	4,504,817	1,524,714

See accompanying independent auditor's report.

City of Stuart

Notes to Other Information - Budgetary Reporting

June 30, 2017

The budgetary comparison is presented 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 except the Internal Service Fund. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, the Permanent Fund and the Enterprise Funds. 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, one budget amendment increased budgeted disbursements by \$4,176,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2017, disbursements exceeded the amounts budgeted in the debt service function.

City of Stuart

Schedule of the City's Proportionate Share of the Net Pension Liability

Iowa Public Employees' Retirement System
For the Last Three Years*
(In Thousands)

Other Information

	2017	2016	2015
City's proportion of the net pension liability	0.009294%	0.008072%	0.007150%
City's proportionate share of the net pension liability	\$ 585	399	284
City's covered-employee payroll	\$ 963	899	840
City's proportionate share of the net pension liability as a percentage of its covered-employee payroll	60.75%	44.38%	33.81%
IPERS' net position as a percentage of the total pension liability	81.82%	85.19%	87.61%

* In accordance with GASB Statement No. 68, the amounts presented for each fiscal year were determined as of June 30 of the preceeding fiscal year.

See accompanying independent auditor's report.

City of Stuart

Schedule of City Contributions

Iowa Public Employees' Retirement System
For the Last Ten Years
(In Thousands)

Other Information

	2017	2016	2015	2014	2013
Statutorily required contribution	\$ 86	89	84	78	72
Contributions in relation to the statutorily required contribution	(86)	(89)	(84)	(78)	(72)
Contribution deficiency (excess)	\$ -	-	-	-	-
City's covered-employee payroll	\$ 927	963	899	840	785
Contributions as a percentage of covered-employee payroll	9.28%	9.24%	9.34%	9.29%	9.18%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See accompanying independent auditor's report.

City of Stuart

Notes to Other Information – Pension Liability

Year ended June 30, 2017

Changes of benefit terms:

Legislation enacted in 2010 modified benefit terms for Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3% per year measured from the member's first unreduced retirement age to a 6% reduction for each year of retirement before age 65.

Legislative action in 2008 transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Changes of assumptions:

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25% to 3.00%.
- Decreased the assumed rate of interest on member accounts from 4.00% to 3.75% per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30-year amortization period to a closed 30-year amortization period for the UAL (unfunded actuarial liability) beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20-year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates.
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

Supplementary Information

City of Stuart

Schedule I

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2017

	Special Revenue			Permanent		Total
	Road Use Tax	Employee Benefits	Fire/Rescue	Special Assessment	Cemetery Perpetual Care	
Receipts:						
Property tax	\$ -	104,043	-	-	-	104,043
Use of money and property	213	91	-	112	1,130	1,546
Intergovernmental	204,589	-	-	-	-	204,589
Special assessments	-	-	-	4,916	-	4,916
Miscellaneous	-	-	1,020	-	-	1,020
Total receipts	204,802	104,134	1,020	5,028	1,130	316,114
Disbursements:						
Operating:						
Public safety	-	72,216	529	-	-	72,745
Public works	265,780	25,333	-	-	-	291,113
Culture and recreation	-	13,105	-	-	-	13,105
General government	-	41,300	-	-	-	41,300
Total disbursements	265,780	151,954	529	-	-	418,263
Excess (deficiency) of receipts over (under) disbursements	(60,978)	(47,820)	491	5,028	1,130	(102,149)
Other financing sources (uses):						
Transfers in	-	35,000	-	-	-	35,000
Transfers out	(64,407)	-	-	-	-	(64,407)
Total other financing sources (uses)	(64,407)	35,000	-	-	-	(29,407)
Change in cash balances	(125,385)	(12,820)	491	5,028	1,130	(131,556)
Cash balances beginning of year	359,237	122,765	178	154,501	71,981	708,662
Cash balances end of year	\$ 233,852	109,945	669	159,529	73,111	577,106
Cash Basis Fund Balances						
Nonspendable:						
Cemetery perpetual care	\$ -	-	-	-	73,111	73,111
Restricted for:						
Streets	233,852	-	-	-	-	233,852
Other purposes	-	109,945	669	159,529	-	270,143
Total cash basis fund balances	\$ 233,852	109,945	669	159,529	73,111	577,106

See accompanying independent auditor's report.

City of Stuart

Schedule 2

Schedule of Indebtedness

Year ended June 30, 2017

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Annual Appropriation General Obligation Bonds and Notes -									
Annual appropriation capital loan notes	December 18, 2007	4.75-4.95%	\$ 1,700,000	1,195,000	-	1,195,000	-	57,093	-
Annual appropriation refunding bonds	June 28, 2012	1.50-4.15%	4,880,000	3,760,000	-	290,000	3,470,000	125,660	-
Annual appropriation corporate purpose and refunding bonds	August 27, 2013	5.00%	2,275,000	2,025,000	-	125,000	1,900,000	101,250	-
Annual appropriation fire truck acquisition note	October 28, 2014	3.50%	175,000	153,000	-	23,000	130,000	5,355	-
Taxable annual appropriation urban renewal bond	December 10, 2014	4.50%	500,000	500,000	-	165,000	335,000	22,500	-
Annual appropriation corporate purpose note	May 3, 2016	3.25%	2,885,000	2,885,000	-	-	2,885,000	101,055	-
Annual appropriation corporate purpose note, Series 2016A	August 11, 2016	4.00%	880,000	-	880,000	-	880,000	28,256	-
Annual appropriation refunding bonds, Series 2017A	May 31, 2017	2.00-3.00%	1,135,000	-	1,135,000	-	1,135,000	-	-
Total			\$10,518,000	10,735,000	2,015,000	1,798,000	10,735,000	441,169	-
General Obligation Bonds and Notes -									
Municipal building bonds	August 30, 2011	1.90%	\$ 165,000	35,000	-	35,000	-	665	-
Corporate purpose and refunding bonds	December 4, 2012	0.70-2.85%	1,255,000	940,000	-	160,000	780,000	17,285	-
Police vehicle acquisition note	November 17, 2016	2.60%	46,000	-	46,000	15,000	31,000	642	-
Total			\$ 975,000	975,000	46,000	210,000	811,000	18,592	-
Sewer Revenue Bonds -									
Sewer Revenue Bond	December 9, 2009	3.00%	\$ 1,060,000	714,000	-	41,000	673,000	21,420	-
Sewer Revenue Bonds	December 15, 2009	2.15-4.05%	710,000	355,000	-	85,000	270,000	13,782	-
Total			\$ 1,069,000	1,069,000	-	126,000	943,000	35,202	-
Other Debt -									
CIPCO/USDA	November 14, 2008	0.00%	\$ 300,000	70,000	-	27,500	42,500	-	-

See accompanying independent auditor's report.

City of Stuart
Bond and Note Maturities
June 30, 2017

Year Ending June 30,	Annual Appropriation General Obligation Bonds and Notes												
	Annual Appropriation Refunding Bonds		Annual Appropriation Corporate Purpose and Refunding Bonds		Annual Appropriation Fire Truck Acquisition Note		Annual Appropriation Urban Renewal Bond		Annual Appropriation Corporate Purpose Note		Annual Appropriation Corporate Purpose Note		
	Issued June 28, 2012	Issued August 27, 2013	Issued October 28, 2014	Issued December 10, 2014	Issued May 3, 2016	Issued August 11, 2016	Issued May 31, 2017	Issued June 28, 2012	Issued August 27, 2013	Issued October 28, 2014	Issued December 10, 2014	Issued May 3, 2016	Issued August 11, 2016
	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates
2018	2.45%	5.00%	3.50%	4.50%	3.65%	-	2.00%	4.50%	3.65%	-	-	3.65%	4.00%
2019	2.65%	5.00%	3.50%	4.50%	3.65%	-	2.00%	4.50%	3.65%	-	-	3.65%	4.00%
2020	2.95%	5.00%	3.50%	-	3.65%	-	2.00%	-	3.65%	-	-	3.65%	3.00%
2021	3.15%	5.00%	3.50%	-	3.65%	-	2.00%	-	3.65%	-	-	3.65%	3.00%
2022	3.35%	5.00%	3.50%	-	3.65%	-	2.50%	-	3.65%	-	-	3.65%	3.00%
2023	3.30%	5.00%	-	-	-	-	2.50%	-	-	-	-	-	3.00%
2024	3.60%	5.00%	-	-	-	-	2.50%	-	-	-	-	-	3.00%
2025	3.75%	5.00%	-	-	-	-	3.00%	-	-	-	-	-	3.00%
2026	3.90%	-	-	-	-	-	-	-	-	-	-	-	-
2027	3.95%	-	-	-	-	-	-	-	-	-	-	-	-
2028	4.05%	-	-	-	-	-	-	-	-	-	-	-	-
2029	4.15%	-	-	-	-	-	-	-	-	-	-	-	-
		\$ 3,470,000	\$ 1,900,000	\$ 130,000	\$ 335,000	\$ 2,885,000	\$ 880,000	\$ 1,135,000	\$ 1,114,000	\$ 1,170,000	\$ 1,301,000	\$ 1,282,000	\$ 1,293,000

Year Ending June 30,	General Obligation Bonds and Notes											
	Corporate Purpose and Refunding Bonds		Police Vehicle Acquisition Note		Sewer Revenue Bonds		Sewer Revenue Bonds		Sewer Revenue Bonds		Other Debt	
	Issued December 4, 2012	Issued November 17, 2016	Issued December 9, 2009	Issued December 15, 2009	Issued December 15, 2009	Issued December 15, 2009	Issued December 15, 2009	Issued December 15, 2009	Issued November 14, 2008	Issued December 15, 2009	Issued December 15, 2009	Issued November 14, 2008
	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates
2018	1.10%	2.60%	3.00%	3.70%	3.00%	3.00%	3.00%	3.00%	0.00%	3.00%	3.00%	0.00%
2019	1.40%	2.60%	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	0.00%	3.00%	3.00%	0.00%
2020	1.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2021	2.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2022	2.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2023	2.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2024	2.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2025	2.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2026	2.40%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2027	2.85%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2028	2.85%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2029	2.85%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2030	2.85%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
2031	2.85%	-	3.00%	4.05%	3.00%	3.00%	3.00%	3.00%	-	3.00%	3.00%	-
		\$ 780,000	\$ 31,000	\$ 673,000	\$ 270,000	\$ 811,000	\$ 943,000	\$ 42,500	\$ 1,135,000	\$ 1,114,000	\$ 1,170,000	\$ 1,301,000

City of Stuart

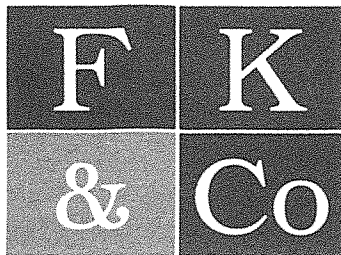
Schedule 4

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Five Years

	2017	2016	2015	2014	2013
Receipts:					
Property tax	\$ 737,131	803,946	664,590	703,988	744,794
Tax increment financing	1,129,060	901,314	1,178,971	822,478	779,611
Other city tax	245,574	242,277	235,120	225,398	246,220
Licenses and permits	51,419	15,199	8,015	4,237	30,703
Use of money and property	18,810	17,720	17,652	27,927	34,719
Intergovernmental	253,860	823,490	669,192	380,899	470,924
Charges for service	342,980	292,426	316,707	334,176	331,521
Special assessments	4,916	4,863	4,884	4,467	6,113
Miscellaneous	562,769	244,708	227,113	357,673	246,962
Total	\$ 3,346,519	3,345,943	3,322,244	2,861,243	2,891,567
Disbursements:					
Operating:					
Public safety	\$ 605,043	605,610	496,818	553,480	650,261
Public works	468,681	224,815	227,823	266,363	366,060
Culture and recreation	190,734	177,094	162,783	155,869	162,230
Community and economic development	280,204	505,720	210,547	952,606	589,554
General government	400,751	351,127	296,945	256,874	300,831
Debt service	2,504,908	1,088,398	1,048,422	2,946,286	738,642
Capital projects	3,064,348	1,586,107	978,622	2,025,141	1,357,886
Total	\$ 7,514,669	4,538,871	3,421,960	7,156,619	4,165,464

See accompanying independent auditor's report.



FALLER, KINCHELOE & CO, PLC

Certified Public Accountants

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:

We have audited in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Stuart, Iowa (City) as of and for the year ended June 30, 2017, and the related Notes to Financial Statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated November 1, 2017. Our report expressed unmodified opinions on the financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information, which were prepared on the basis of cash receipts and disbursements, a basis of accounting other than U.S. generally accepted accounting principles. Our report expressed an adverse opinion on the aggregate discretely presented component units due to the omission of the Stuart Municipal Utilities and the Stuart Library Foundation.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting to determine the audit procedures 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 City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph 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. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control we consider to be material weaknesses.

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 a material misstatement of the City's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies in internal control described in the accompanying Schedule of Findings as items (A), (B), (C), (D), (E), (F) and (G) to be material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance 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 non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2017 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's Responses to the Findings

The City's responses to the findings identified in our audit are described in the accompanying Schedule of Findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

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 result of that testing and not to provide an opinion on the effectiveness of the City'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 City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



FALLER, KINCHELOE & CO., PLC

Des Moines, Iowa
November 1, 2017

City of Stuart

Schedule of Findings

Year ended June 30, 2017

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties

Criteria – Management is responsible for establishing and maintaining internal control. A good system of internal control provides for adequate segregation of duties so no one individual handles a transaction from its inception to completion. In order to maintain proper internal control, duties should be segregated so the authorization, custody and recording of transactions are not under the control of the same employee. This segregation of duties helps prevent losses from employee error or dishonesty and maximizes the accuracy of the City's financial statements.

Condition – Generally, one or two individuals have control over each of the following areas for the City:

- 1) Cash – reconciling bank accounts, initiating cash receipts and handling and recording cash.
- 2) Investments – detailed record keeping, custody and reconciling.
- 3) Long-term debt – recording and reconciling.
- 4) Receipts – collecting, depositing, posting and reconciling.
- 5) Accounting system – performing all general accounting functions and having custody of City assets.
- 6) Disbursements – preparing checks, signing checks and access to the accounting records.
- 7) Petty cash – custody, reconciling and recording.
- 8) Payroll – recordkeeping, preparation and distribution.

Cause – The City has a limited number of employees and procedures have not been designed to adequately segregate duties or provide compensating controls through additional oversight of transactions and processes.

Effect – Inadequate segregation of duties could adversely affect the City's ability to prevent or detect and correct misstatements, errors or misappropriation on a timely basis by employees in the normal course of performing their assigned functions.

Recommendation – The City should review its control activities to obtain the maximum internal control possible under the circumstances utilizing currently available staff.

Response – The City will review its control procedures to obtain the maximum internal control possible with the limited staff it has.

Conclusion – Response acknowledged.

(B) Preparation of Financial Statements

Criteria – A properly designed system of internal control over financial reporting includes the preparation of an entity's financial statements and accompanying notes to the financial statements by internal personnel of the entity.

City of Stuart

Schedule of Findings

Year ended June 30, 2017

Condition - As auditors, we were requested to draft the financial statements and accompanying notes to the financial statements. It is the responsibility of management and those charged with governance to make the decision whether to accept the degree of risk associated with this condition because of cost or other considerations.

Cause - We recognize that with a limited number of office employees, preparation of the financial statements and accompanying notes to the financial statements is difficult.

Effect - The effect of this condition is that the year-end financial reporting is prepared by a party outside of the City. The outside party does not have the constant contact with ongoing financial transactions.

Recommendation - We recommend that City officials continue reviewing operating procedures in order to obtain the maximum internal control possible under the circumstances to enable staff to draft the financial statements and accompanying notes to the financial statements internally.

Response – These are very technical issues that the average citizen would not understand. This issue relates to auditor independence issues, and we accept the risk associated with not being able to prepare these documents and apply accounting principles in accordance with an other comprehensive basis of accounting.

Conclusion – Response acknowledged.

(C) Receipts

Criteria – A deficiency in internal control over financial reporting 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 of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statement.

Condition – Receipts are not deposited timely by the City. Currently, receipts are deposited to the bank within 2-3 days after receipt.

Cause – City policies do not require and procedures have not been established to ensure all receipts are deposited timely.

Effect – Lack of City policies and procedures resulted in City employees not depositing timely.

Recommendation – The City should establish procedures to ensure all receipts are deposited timely, preferably on a daily basis.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

(D) Reconciliation of Ambulance Billings, Collections and Delinquent Accounts

Criteria – An effective internal control system provides for internal controls related to reconciling ambulance billings, collections and delinquent accounts to ensure proper recording of ambulance receipts, the propriety of adjustments and write-offs and the propriety of delinquent accounts.

City of Stuart

Schedule of Findings

Year ended June 30, 2017

Condition – The City does not reconcile ambulance billings, collections and delinquent accounts on a monthly basis.

Cause – Policies have not been established and procedures have not been implemented to ensure monthly ambulance billings, collections and delinquent accounts are reconciled each month.

Effect – Inadequate procedures or controls can result in unrecorded or misstated ambulance receipts and improper or unauthorized adjustments and write-offs.

Recommendation – The City should ensure there is an adequate reconciliation of ambulance billings, collections and delinquent accounts are properly supported.

Response – We will work on implementing this recommendation.

Conclusion – Response acknowledged.

(E) Chart of Accounts

Criteria – An effective internal control system provides for internal controls related to accurate and complete financial reporting.

Condition – The City has not fully implemented the recommended Uniform Chart of Accounts for Iowa City Governments approved by the City Finance Committee.

Cause – City policies and procedures have not been established to require the use of the Uniform Chart of Accounts.

Effect – Not using a uniform chart account could result in inaccurate or incomplete financial reporting.

Recommendation – To provide better financial information and control, the City should establish policies and procedures to require the use of the recommended Uniform Chart of Accounts, or its equivalent.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

(F) Financial Reporting

Criteria – A deficiency in internal control over financial reporting 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, misstatement of the financial statements on a timely basis. Properly designed policies and procedures and implementation of the policies and procedures are an integral part of ensuring the reliability and accuracy of the City's financial statements.

Condition – General obligation debt payments were recorded in the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Fund. These transactions should be recorded in the Debt Service Fund, as required by Chapter 384.4 of the Code of Iowa. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Cause – City policies do not require and procedures have not been established to require independent review of financial records to ensure the City's financial records are accurate.

City of Stuart

Schedule of Findings

Year ended June 30, 2017

Effect – Lack of policies and procedures resulted in City employees not detecting the errors in the normal course of performing their assigned functions. As a result, material adjustments to the City financial records were necessary.

Recommendation – The City should ensure all general obligation principal and interest payments are made from the Debt Service Fund.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.

(G) Capital Projects

Criteria – An effective internal control system provides for internal controls related to reconciling current capital projects disbursements to contracts awards and subsequent change orders to ensure disbursements do not exceed contract awards unless an approved change order exists.

Condition – The City does not formally reconcile total contract awards and subsequent change orders to payments. The City relies on outside grant administrators and/or the contracted City Engineer to reconcile each contract and subsequent change orders to payments. Based on our reconciliation of a City construction project, it appears the City overpaid a contractor by approximately \$5,600.

Cause – The City has a limited number of employees and procedures have not been designed to reconcile current capital projects.

Effect – It appears the City overpaid a contractor by approximately \$5,600, which was not known by the City until we brought it their attention.

Recommendation – The City should ensure all awarded contracts are appropriately reconciled to ensure approved contract totals are not exceeded. In addition, the City should review the situation above and request reimbursement from the contractor in question for the amount overpaid.

Response – The City has tracked projects, but not developed a spreadsheet to show this tracking. The City will develop project spreadsheets to document that the projects are tracked. In addition, we will work with the engineer in relation to the potential overpayment to the contractor.

Conclusion – Response acknowledged.

INSTANCES OF NONCOMPLIANCE:

No matters were noted.

City of Stuart

Schedule of Findings

Year ended June 30, 2017

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2017 exceeded the amounts budgeted in the debt service function. Chapter 384.20 of the Code of Iowa states, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

In addition, the budget document did not include all debt issues of the City.

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. In addition, all debt issues should be recorded on the budget documents as required.

Response – We will implement these recommendations.

Conclusion – Response acknowledged.

- (2) Questionable Disbursements – No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- (3) Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (5) Bond Coverage - Surety bond coverage of City 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.
- (6) City Council Minutes – Except as noted below, no transactions were found that we believe should have been approved in the Council minutes but were not.

Instances were noted where claims were not approved by the City Council or published in the newspaper. Total disbursements by fund are not published. Chapter 372.13(6) of the Code of Iowa requires total expenditures from each city fund and all claims be published in the newspaper within fifteen days of the City Council meeting.

Employee salaries by position were not published in the newspaper in accordance with Chapter 372.13 of the Code of Iowa and an attorney General’s opinion dated April 12, 1978.

Recommendation - The City should implement procedures to ensure that all claims paid are approved by the City Council, and that all claims and total expenditures from each city fund are published in the newspaper as required by the Code of Iowa. In addition, employee salaries by position should be published in the newspaper as required.

Response - We will implement these recommendations.

Conclusion - Response acknowledged.

- (7) 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 the City’s investment policy were noted.

City of Stuart

Schedule of Findings

Year ended June 30, 2017

- (8) Revenue Bonds – The sewer revenue bond resolutions require a sinking account be established and monthly transfers equal to 1/12 of the principal and interest coming due be made to the sinking account. We noted that the City did not properly fund a sinking account for the sewer revenue bonds.

Recommendation – The City should implement procedures to ensure the sewer revenue bond sinking account requirements are met.

Response – We will review this situation and take appropriate action.

Conclusion – Response acknowledged.

- (9) Payment of General Obligation Bonds – Certain general obligation bonds were paid from the Special Revenue, Urban Renewal Tax Increment Fund and 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 from the Special Revenue, Urban Renewal Tax Increment Fund and the Capital Projects Fund for future funding contributions. Payment of the bonds should then be disbursed from the Debt Service Fund.

Response – We will transfer in the future as recommended.

Conclusion – Response acknowledged.

- (10) Bank Interest – Bank interest earned on road use tax funds and cemetery perpetual care funds is currently credited to those funds. The Code of Iowa requires bank interest earned on those funds be credited to the General Fund.

Recommendation – The City should implement procedures to ensure bank interest earned is credited to the appropriate funds, as required by the Code of Iowa.

Response – We will implement this recommendation.

Conclusion – Response acknowledged.

- (11) Payroll – Employee timecards are not consistently signed and approved by a supervisor. Total employee wages as reported to Iowa Workforce Development were materially understated.

Recommendation – The City should implement procedures to ensure all timecards are signed and approved by a supervisor. In addition, all employee wages should be reported to the Iowa Workforce Development as required.

Response – These issues were implemented in fiscal year 2017, and were fully in compliance as of June 30, 2017.

Conclusion – Response acknowledged.

City of Stuart

Schedule of Findings

Year ended June 30, 2017

- (12) Tax Increment Financing (TIF) – Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor which qualify for reimbursement from incremental property tax. The County Auditor provides for the division of property tax to repay the certified indebtedness and provides available incremental property tax in subsequent fiscal years without further certification by the City until the amount of certified indebtedness is paid. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness. Chapter 403.19 of the Code of Iowa requires the date the City Council initially approved the debt be included on the TIF certification.

We noted the following regarding the City's TIF debt certifications to the County Auditor:

- The City did not certify some TIF indebtedness for debt to be paid from the Special Revenue, Urban Renewal Tax Increment Fund, as required by Chapter 403.19 of the Code of Iowa.
- Bank interest credited to the Special Revenue, Urban Renewal Tax Increment Fund was not decertified to the County Auditor for the amounts recorded in the fund, as required by the Code of Iowa.

Recommendation – The City should consult TIF legal counsel to determine the disposition of these issues. The City should ensure the TIF debt certification complies with Chapter 403 of the Code of Iowa. The City should determine the correct amounts to be certified in the future for debt payments. In addition, the City should decertify interest credited to the Special Revenue, Urban Renewal Tax Increment Fund as required.

Response – We will consult with legal counsel regarding these issues.

Conclusion – Response acknowledged.

- (13) Emergency Fund – The Code of Iowa allows the City to tax for an emergency levy. The City has established an Emergency Fund to account for these monies. However, the City has not transferred the balance in this fund to the General Fund, as required.

Recommendation – The City should transfer the balance in the Emergency Fund to the General Fund at least once per year.

Response – We will implement this recommendation.

Conclusion - Response accepted.

- (14) Annual Urban Renewal Report – The annual urban renewal report was approved and was initially certified to the Iowa Department of Management on or before December 1. However, we noted that the beginning and ending obligation balances do not agree with the City's records.

Recommendation – The City should ensure the balances reported on the Annual Urban Renewal Report agree to the City's records.

Response – We will attempt to implement this recommendation.

Conclusion – Response acknowledged.