



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

July 5, 2011

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Stockton, Iowa.

The City's receipts totaled \$500,643 for the year ended June 30, 2010. The receipts included \$27,451 in property tax, \$65,973 from charges for service, \$13,478 from operating grants, contributions and restricted interest, \$114,345 from capital grants, contributions and restricted interest, \$17,057 from local option sales tax, \$90 from unrestricted interest on investments and \$262,249 from note proceeds.

Disbursements for the year totaled \$497,751, and included \$34,595 for public works, \$44,980 for general government and \$4,931 for culture and recreation. Also, disbursements for business type activities totaled \$408,277.

The Office of Auditor of State performed a special investigation of the City of Stockton for the period July 1, 2004 through October 31, 2010. The special investigation report, dated April 14, 2011, identified \$65,324.06 of improper and unsupported disbursements and undeposited collections, of which \$10,223.58 pertained to the year ended June 30, 2010.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1022-0655-B00F.pdf>.

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CITY OF STOCKTON

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS**

JUNE 30, 2010

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City of Stockton

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2010)		
Douglas DeWitt	Mayor	Jan 2010
Gary Holtz	Council Member	Jan 2010
Glen Van Dee	Council Member	Jan 2010
Billie Linder	Council Member	Jan 2012
Harlan McKillip	Council Member	Jan 2012
Don Woodford	Council Member	Jan 2012
Larry McCoy	Clerk	Indefinite
Mary Barnard	Treasurer	Indefinite
Robert Meyer	Attorney	Indefinite
(After January 2010)		
Don Woodford	Mayor	Jan 2012
Billie Linder	Council Member	(Resigned)
Pat Baker (Appointed)	Council Member	Nov 2011
Harlan McKillip	Council Member	Jan 2012
Roger Bennett	Council Member	Jan 2014
David Clark	Council Member	Jan 2014
Gary Holtz	Council Member	Jan 2014
Larry McCoy	Clerk	(Resigned Feb 2011)
Mary Barnard	Treasurer	Indefinite
Robert Meyer	Attorney	Indefinite

City of Stockton



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Stockton, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Stockton's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009. In addition, the City's records do not permit the application of audit procedures to obtain sufficient competent evidential matter about the completeness and propriety of the receipts and disbursements in the General Fund and the Enterprise, Water Fund, major governmental and enterprise funds, respectively. Accordingly, we were unable to satisfy ourselves as to the completeness and propriety of the receipts and disbursements of the governmental and business type activities, the General Fund and the Enterprise, Water Fund.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009 and had we been able to obtain sufficient competent evidential matter about the completeness and propriety of the receipts and disbursements in the governmental and business type activities, the General Fund and the Enterprise, Water Fund, as described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental and business type activities, the General Fund and the Enterprise, Water Fund of the City of Stockton as of June 30, 2010, 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.

In addition, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2009, as discussed in the third paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the Special Revenue, Road Use Tax Fund and the Enterprise, Sewer Fund, major governmental and enterprise funds, respectively, of the City of Stockton as of June 30, 2010, 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.

In accordance with Government Auditing Standards, we have also issued our report dated February 15, 2011 on our consideration of the City of Stockton's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 11 and 24 through 25 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Stockton's basic financial statements. Other supplementary information included in Schedule 1 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.


DAVID A. VAUDT, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 15, 2011

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Stockton 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, 2010. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2010 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities decreased 16%, or approximately \$3,500, primarily due to increases in disbursements for street repair.
- The cash basis net assets of the City's business type activities increased 42%, or approximately \$6,400, primarily due to the timing of disbursements related to the sewer project.

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 Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

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

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

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about 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 operations 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 Statement of Activities and Net Assets reports information which helps answer this question.

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

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

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

Fund Financial Statements

The City has two kinds of funds:

1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund and 2) the Special Revenue, Road Use Tax 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 statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

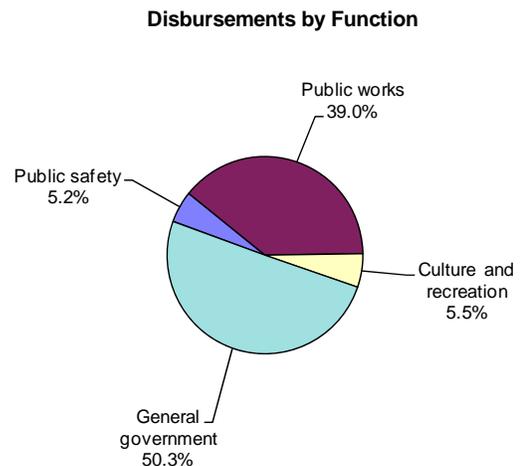
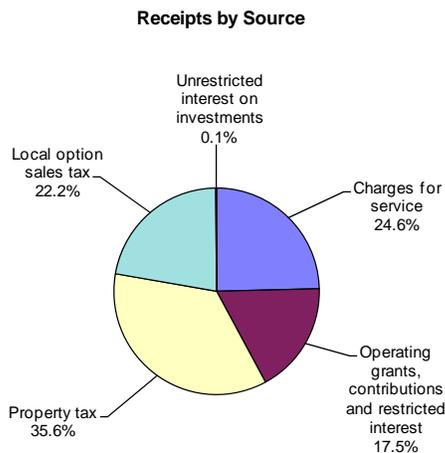
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains two Enterprise Funds to provide separate information for the Water and Sewer Funds, considered to be major funds of the City.

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, decreasing from \$21,845 to \$18,386. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service	\$ 18,939
Operating grants, contributions and restricted interest	13,478
General receipts:	
Property tax	27,451
Local option sales tax	17,057
Unrestricted interest on investments	90
Total receipts	<u>77,015</u>
Disbursements:	
Public safety	4,628
Public works	34,935
Culture and recreation	4,931
General government	44,980
Total disbursements	<u>89,474</u>
Change in cash basis net assets before transfers	(12,459)
Transfers, net	<u>9000</u>
Change in cash basis net assets	(3,459)
Cash basis net assets beginning of year	<u>21,845</u>
Cash basis net assets end of year	<u>\$ 18,386</u>



The cash basis net assets of the City's governmental activities decreased 16%, or approximately \$3,500, primarily due to increases in disbursements for street repair.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2010
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 25,448
Sewer	21,586
Capital grants, contributions and restricted interest	114,345
General receipts:	
Note proceeds	262,249
Total receipts	<u>423,628</u>
Disbursements:	
Water	12,958
Sewer	395,319
Total disbursements	<u>408,277</u>
Change in cash basis net assets before transfers	15,351
Transfers, net	<u>(9,000)</u>
Change in cash basis net assets	6,351
Cash basis net assets beginning of year	<u>15,238</u>
Cash basis net assets end of year	<u>\$ 21,589</u>

The cash basis net assets of the City's business type activities increased 42%, or approximately \$6,400, primarily due to the timing of disbursements related to the sewer project.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Stockton completed the year, its governmental funds reported a combined fund balance of \$18,386, a decrease of \$3,459 from last year's total of \$21,845. 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 decreased \$4,366 from the prior year to \$16,770. The decrease in fund balance was primarily due to an increase in disbursements for street repair and other costs.
- The Special Revenue, Road Use Tax Fund cash balance increased \$907 from the prior year to \$1,616 with no significant changes.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$6,490 to \$7,248, primarily due to receipts exceeding disbursements.
- The Sewer Fund cash balance decreased \$139 to \$14,341 with no significant changes.

BUDGETARY HIGHLIGHTS

The City did not amend its budget in fiscal year 2010.

The City's receipts were \$72,545 less than budgeted. This was primarily due to the City budgeting state revolving fund loans as intergovernmental receipts.

Total disbursements were \$118,151 more than the amount budgeted. The actual disbursements for the public works and business type activities functions were \$16,435 and \$118,277, respectively, more than budgeted. This was primarily due to the City's sewer project.

DEBT ADMINISTRATION

At June 30, 2010, the City had \$281,984 in notes and other long-term debt outstanding, compared to \$67,132 outstanding at June 30, 2009, as follows:

	Outstanding Debt at Year-End	
	June 30,	
	2010	2009
Revenue notes	\$ 254,249	31,500
City Hall remodel loan	9,543	12,373
Truck loan	18,192	23,259
Total	\$ 281,984	67,132

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 \$27,735 is below its constitutional debt limit of \$290,951.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The fiscal year 2011 budget contains total receipts of \$145,357 and disbursements of \$125,952. This budget is lower than the fiscal year 2010 budget, which contained total receipts of \$310,939 and disbursements of \$379,600, primarily due to the sewer construction project.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the interim City Clerk Laurie Ganzer, Stockton, Iowa 52769.

City of Stockton

Basic Financial Statements

City of Stockton

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2010

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 4,628	-	-	-
Public works	34,935	11,706	12,428	-
Culture and recreation	4,931	2,390	1,050	-
General government	44,980	4,843	-	-
Total governmental activities	89,474	18,939	13,478	-
Business type activities:				
Water	12,958	25,448	-	-
Sewer	395,319	21,586	-	114,345
Total business type activities	408,277	47,034	-	114,345
Total	\$ 497,751	65,973	13,478	114,345
General Receipts and Transfers:				
Property and other city tax levied for general purposes				
Local option sales tax				
Unrestricted interest on investments				
Note proceeds				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
(4,628)	-	(4,628)
(10,801)	-	(10,801)
(1,491)	-	(1,491)
(40,137)	-	(40,137)
(57,057)	-	(57,057)
-	12,490	12,490
-	(259,388)	(259,388)
-	(246,898)	(246,898)
(57,057)	(246,898)	(303,955)
27,451	-	27,451
17,057	-	17,057
90	-	90
-	262,249	262,249
9,000	(9,000)	-
53,598	253,249	306,847
(3,459)	6,351	2,892
21,845	15,238	37,083
\$ 18,386	21,589	39,975
\$ 1,616	-	1,616
16,770	21,589	38,359
\$ 18,386	21,589	39,975

Exhibit B

City of Stockton

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

As of and for the year ended June 30, 2010

	<u>Special Revenue</u>		Total
	General	Road Use Tax	
Receipts:			
Property tax	\$ 27,451	-	27,451
Other city tax	17,057	-	17,057
Use of money and property	4,876	-	4,876
Intergovernmental	-	12,428	12,428
Charges for service	11,706	-	11,706
Miscellaneous	3,497	-	3,497
Total receipts	<u>64,587</u>	<u>12,428</u>	<u>77,015</u>
Disbursements:			
Operating:			
Public safety	4,628	-	4,628
Public works	14,414	20,521	34,935
Culture and recreation	4,931	-	4,931
General government	44,980	-	44,980
Total disbursements	<u>68,953</u>	<u>20,521</u>	<u>89,474</u>
Deficiency of receipts under disbursements	(4,366)	(8,093)	(12,459)
Other financing sources:			
Operating transfers in	-	9,000	9,000
Net change in cash balances	(4,366)	907	(3,459)
Cash balances beginning of year	21,136	709	21,845
Cash balances end of year	<u>\$ 16,770</u>	<u>1,616</u>	<u>18,386</u>
Cash Basis Fund Balances			
Unreserved:			
General fund	\$ 16,770	-	16,770
Special revenue fund	-	1,616	1,616
Total cash basis fund balances	<u>\$ 16,770</u>	<u>1,616</u>	<u>18,386</u>

See notes to financial statements.

City of Stockton

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

As of and for the year ended June 30, 2010

	Enterprise		
	Water	Sewer	Total
Operating receipts:			
Charges for service	\$ 25,448	21,586	47,034
Operating disbursements:			
Business type activities	11,073	11,002	22,075
Excess of operating receipts over operating disbursements	14,375	10,584	24,959
Non-operating receipts (disbursements):			
Debt service	(1,885)	(43,481)	(45,366)
Intergovernmental	-	114,345	114,345
Note proceeds	-	262,249	262,249
Capital projects	-	(340,836)	(340,836)
Net nonoperating receipts (disbursements)	(1,885)	(7,723)	(9,608)
Excess of receipts over disbursements	12,490	2,861	15,351
Operating transfers in	-	6,000	6,000
Operating transfers out	(6,000)	(9,000)	(15,000)
Total operating transfers in (out)	(6,000)	(3,000)	(9,000)
Net change in cash balances	6,490	(139)	6,351
Cash balances beginning of year	758	14,480	15,238
Cash balances end of year	\$ 7,248	14,341	21,589
Cash Basis Fund Balances			
Unreserved	\$ 7,248	14,341	21,589

See notes to financial statements.

City of Stockton

Notes to Financial Statements

June 30, 2010

(1) Summary of Significant Accounting Policies

The City of Stockton is a political subdivision of the State of Iowa located in Muscatine County. It was first incorporated in 1902 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, health and social services, culture and recreation, community and economic development and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Stockton 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. The City has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations

The City 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: Muscatine County Assessor's Conference Board, Muscatine County Emergency Management Commission and Muscatine County Solid Waste Management Agency.

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

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

The Special Revenue, Road Use Tax Fund is used to account for road construction and maintenance.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's 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 are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works and business type activities functions.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2010 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

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

(3) Long-Term Debt

Sewer Revenue Notes

On July 30, 2008, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of a \$100,000 interest free interim loan and disbursement agreement note. The note was issued to provide interim financing for engineering costs and will be repaid from proceeds of a \$214,000 SRF loan agreement. At June 30, 2010, the City had repaid the interim loan.

On January 27, 2010, the City entered into a SRF loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$214,000 of sewer revenue capital loan notes with interest at 3.25% per annum. The notes were issued pursuant to the provisions of Chapter 455B of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. The City will draw down funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred. At June 30, 2010, the City had drawn \$209,249 of the \$214,000 authorized. An initiation fee of 1% of the authorized borrowing for the sewer revenue notes was charged by the Iowa Finance Authority. The total initiation fee of \$2,140 was withheld by the Iowa Finance Authority from the first proceeds of the sewer revenue notes. Since the City has not fully drawn funds on the sewer revenue notes, a final repayment schedule has not yet been adopted for the debt. The City drew the remaining \$4,751 after June 30, 2010. During the year ended June 30, 2010, the City paid principal of \$8,000 and interest of \$1,561. The City sewer system was placed into service in April 2010.

On January 27, 2010, the City entered into a SRF forgivable loan and disbursement agreement with the Iowa Finance Authority for the issuance of \$53,000 of sewer revenue notes with interest at 3.25% per annum. The notes were issued pursuant to the provisions of Chapter 455B of the Code of Iowa to pay the cost of constructing improvements and extensions to the City's sewer system. At June 30, 2010, the City had drawn the \$53,000 authorized. An initiation fee of 1% of the authorized borrowing for the sewer revenue notes may be charged by the Iowa Finance Authority. If the City complies with all applicable American Recovery and Reinvestment Act (ARRA) requirements, the loan will be forgiven, in full, with no payments of principal, interest or initiation fee. As of June 30, 2010, the loan had not been forgiven.

Governmental Accounting Standards Board Statement Number 48 information is not included since the sewer project was not placed into service until April 2010 and the City has not collected any significant revenues in fiscal year 2010.

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

- (a) Sufficient transfers shall be made to a sewer revenue note sinking account for the purpose of making the above payments when due.
- (b) The note resolution requires the City to provide for rates to be charged to produce net operating revenues equal to at least 110% of the principal and interest coming due in each year.
- (c) An audit is required not later than 180 days after the end of the fiscal year.

The City has not established sewer rates to produce net operating revenues equal to at least 110% of the principal and interest coming due in each year as required by the note resolution.

The City did not comply with the requirement to have an audit not later than 180 days after the end of the fiscal year as required by the note resolution.

City Hall Remodeling Loan

On September 22, 2003, the City entered into a loan agreement for \$24,900 to be used to remodel City Hall. The loan bears 5.00% per annum interest and is to be repaid in monthly installments of \$264, including interest, for a period of ten years. During the year ended June 30, 2010, a total of \$3,434, including interest of \$604, was paid on the loan. The principal balance at June 30, 2010 was \$9,543.

Truck Loan

On November 18, 2008, the City entered into an installment loan for \$25,439 to be used to purchase a truck. The loan bears 4.25% per annum interest and is to be repaid in monthly installments of \$471, including interest, for a period of five years. During the year ended June 30, 2010, a total of \$6,038, including interest of \$971, was paid on the loan. The principal balance at June 30, 2010 was \$18,192.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.30% of their annual covered salary and the City is required to contribute 6.65% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2010 was \$1,980, equal to the required contribution for the year.

(5) 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.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2010 is as follows:

Transfer to	Transfer from	Amount
Special Revenue: Road Use Tax	Enterprise: Sewer	\$ 9,000
Enterprise: Sewer	Enterprise: Water	6,000
Total		<u>\$ 15,000</u>

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

(7) Subsequent Events

The City approved the final pay request of \$16,431 on the lagoon project to be paid on August 9, 2010.

The City Council placed the City Clerk on paid administrative leave on August 28, 2010 and he was paid through October 2010. The City Clerk resigned in February 2011.

On September 16, 2010, the City hired an interim city clerk to perform clerk duties and on September 30, 2010 approved the purchase of Data Technologies accounting software for \$7,240 plus travel expenses for one technician, with a down payment of \$3,725.

(8) Special Investigation

The Office of Auditor of State performed a special investigation of the City for the period July 1, 2004 through October 31, 2010. The special investigation report, dated April 14, 2011, identified \$65,324.06 of improper and unsupported disbursements and undeposited collections for the period July 1, 2004 through October 31, 2010, of which \$10,223.58 pertained to the year ended June 30, 2010.

Copies of the special investigation report have been filed with the Muscatine County Attorney's Office, the Division of Criminal Investigation and the Attorney General's Office. A copy of this report is available for review in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/specials/1022-0655-BE00.pdf>.

Required Supplementary Information

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

Required Supplementary Information

Year ended June 30, 2010

	Governmental Funds Actual	Proprietary Funds Actual	Total	Budgeted Amounts Original and Final	Final to Total Variance
Receipts:					
Property tax	\$ 27,451	-	27,451	26,142	1,309
Other city tax	17,057	-	17,057	20,597	(3,540)
Use of money and property	4,876	-	4,876	9,200	(4,324)
Intergovernmental	12,428	114,345	126,773	202,000	(75,227)
Charges for service	11,706	47,034	58,740	53,000	5,740
Miscellaneous	3,497	-	3,497	-	3,497
Total receipts	<u>77,015</u>	<u>161,379</u>	<u>238,394</u>	<u>310,939</u>	<u>(72,545)</u>
Disbursements:					
Public safety	4,628	-	4,628	4,900	272
Public works	34,935	-	34,935	18,500	(16,435)
Culture and recreation	4,931	-	4,931	6,000	1,069
General government	44,980	-	44,980	60,200	15,220
Business type activities	-	408,277	408,277	290,000	(118,277)
Total disbursements	<u>89,474</u>	<u>408,277</u>	<u>497,751</u>	<u>379,600</u>	<u>(118,151)</u>
Deficiency of receipts under disbursements	(12,459)	(246,898)	(259,357)	(68,661)	(190,696)
Other financing sources, net	9,000	253,249	262,249	68,000	194,249
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(3,459)	6,351	2,892	(661)	3,553
Balances beginning of year	21,845	15,238	37,083	22,269	14,814
Balances end of year	<u>\$ 18,386</u>	<u>21,589</u>	<u>39,975</u>	<u>21,608</u>	<u>18,367</u>

See accompanying independent auditor's report.

City of Stockton

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2010

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These eight functions are: public safety, public works, 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 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. The budget was not amended during the year.

During the year ended June 30, 2010, disbursements exceeded the amounts budgeted in the public works and business type activities functions.

City of Stockton

Other Supplementary Information

City of Stockton
 Schedule of Indebtedness
 Year ended June 30, 2010

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue notes:			
Interim loan	Jul 30, 2008	0.00%	\$ 100,000
Sewer	Jan 27, 2010	3.25	214,000
Sewer	Jan 27, 2010	3.25	53,000
Total			
Loans:			
City Hall remodeling	Sep 22, 2003	5.00%	\$ 24,900
Truck	Nov 18, 2008	4.25	25,439
Total			

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
31,500	-	31,500	-	-
-	209,249	8,000	201,249	1,561
-	53,000	-	53,000	-
<hr/>				
\$ 31,500	262,249	39,500	254,249	1,561
<hr/>				
12,373	-	2,830	9,543	604
23,259	-	5,067	18,192	971
<hr/>				
\$ 35,632	-	7,897	27,735	1,575
<hr/>				

City of Stockton



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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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 the accompanying financial statements of the governmental activities, the business type activities and each major fund of the City of Stockton, Iowa, as of and for the year ended June 30, 2010, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 15, 2011. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2009 and the propriety of the receipts and disbursements of the governmental and business type activities, the General Fund and the Enterprise, Water Fund, major governmental and enterprise funds, respectively. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect or 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 of Stockton's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (D) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (E) through (I) to be significant deficiencies.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Stockton'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 instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. We also 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, 2010 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.

The City's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Stockton's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Stockton and other parties to whom the City of Stockton may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Stockton 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.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 15, 2011

City of Stockton
Schedule of Findings
Year ended June 30, 2010

Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

- (A) Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another.

Generally, one individual has control over each of the following areas:

- (1) Cash—handling, reconciling and recording.
- (2) Investing—record keeping and investing.
- (3) Receipts—collecting, mail opening and depositing.
- (4) Utilities—billing, collecting, depositing and posting.
- (5) Disbursements—invoice processing, check writing and mailing.
- (6) Payroll—record keeping, preparation and distribution.
- (7) Debt—record keeping, compliance and debt payment processing.

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

Response – All receipts and disbursements, including supporting documentation will be submitted to the Council each month at the regular Council meeting along with a full copy of the reconciled bank statement for review and a documented review by the Council will be made. The City will segregate duties to the extent possible with limited staff implementing documented review by Council for the areas noted above.

Conclusion – Response acknowledged. The City should consider periodically reperforming the bank reconciliation.

- (B) Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year and a delinquent accounts listing was not maintained.

Also, utility receipts of \$63,028 posted to the City's computer software for fiscal year 2010 did not reconcile to utility bank deposits of \$58,935, a difference of \$4,093.

In addition, the City has paid \$770 for an annual service agreement since June 2007 for a utility software program the City does not use.

Recommendation – A listing of delinquent accounts should be maintained on a monthly basis. Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies. A listing of delinquent utilities accounts should be maintained.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

Also, the utility receipts should be reconciled with bank deposits.

In addition, the City should utilize its utility software program or determine whether it is needed.

Response – The City will reconcile all utility accounts, including delinquent accounts, on a monthly basis and reconcile receipts to bank deposits. The City will maintain delinquent listings and all utility reconciliations will have documented review by the Council. The City will be purchasing new computer software and implementing the utility portion by November 1, 2010 to replace the current utility software and discontinue service payments.

Conclusion – Response accepted.

- (C) Deposits – Receipts are mailed or dropped off at City Hall and the former City Clerk took the receipts to his house. Deposits were typically made once a month.

Checks and money orders received by the City were not restrictively endorsed until the deposit was prepared.

Pre-numbered receipt books are not maintained for items other than building permits and pet licenses.

The Recreation Committee collects cash from a pop machine maintained outside City Hall and does not deposit the collections to the bank. The cash is used to purchase pop for the pop machine.

Recommendation – The City should review policies and procedures to ensure deposits are made on a timely basis. Also, City receipts should remain at City Hall until deposited timely.

The City should restrictively endorse all checks and money orders for deposit only immediately upon receipt.

The City should maintain pre-numbered receipt books for all collections to aid in ensuring proper handling and recording of receipts.

The City should maintain all receipts and disbursements on a cash basis, recording all transactions as of the day the money is received or check is issued.

The Recreation Committee should deposit all pop machine collections and the City should issue checks to purchase pop for the pop machine.

Response – The City will make deposits on a weekly basis, all checks will be endorsed upon receipt and locked in a secure location until the Clerk takes them to the bank. A pre-numbered cash receipt book has been established and all transactions will be recorded on a cash basis. The City is reviewing policies and procedures regarding pop machine collections and purchases.

Conclusion – Response accepted.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

- (D) Financial Reporting – The former City Clerk maintained City records on a computer at City Hall and on the former City Clerk’s home computer by transferring records between locations on an external hard drive.

The former City Clerk entered transactions in Quick Books and prepared monthly bank reconciliations in Quick Books. The former City Clerk entered all disbursements from Quick Books into a spreadsheet program to identify which fund the disbursement was from. The former City Clerk prepared a monthly report to the Council of the beginning balance, receipts, disbursements and ending balance for each City fund. Receipts were entered directly from Quick Books to the monthly report. The former City Clerk did not record receipts and disbursements using the Uniform Chart of Accounts for Iowa City Governments. This matter was resolved for audit purposes.

Recommendation – City records should remain at City Hall.

The City should implement procedures to ensure all transactions are recorded using the Uniform Chart of Accounts for Iowa City Governments.

Response – The City has purchased a new computer with password protection, all records will be maintained on the new computer, backed up regularly and kept at City Hall. The City is purchasing Data Tech Software for utility billing, accounts payable, payroll and general ledger and all receipts and disbursements will be recorded following the Uniform Chart of Accounts for Iowa City Governments.

Conclusion – Response accepted.

- (E) Late Payments – The City has not made timely payments for federal or state taxes, FICA and IPERS and, as a result, has incurred late fees.

Also, the City has not made timely payments on the truck loan and the City credit card and, as a result, has incurred late fees.

Recommendation – The City should make all payments timely.

Response – The City has closed the credit card account.

The City has caught up all past due payments it is aware of at this time. We are making all tax payments and loan payments on time and will continue to do so in the future.

Conclusion – Response accepted.

- (F) Bank Reconciliations - The City receives bank statements which are not dated the last business day of the month. Therefore, the City’s bank reconciliations are not prepared as of the last business day of the month.

The outstanding check list prepared by the former City Clerk did not agree with the outstanding check list prepared by the City Treasurer. This matter was resolved for audit purposes.

The City accumulated undeposited receipts which were used to make change rather than being properly deposited and accounted for.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

Recommendation – The City should request bank statements from financial institutions dated the last business day of the month and should prepare bank reconciliations as of the last business day of the month.

The City should resolve discrepancies between outstanding check lists from the City Clerk and City Treasurer.

The City should determine if a change fund is needed and, if needed, the City should establish a set dollar amount for the change fund, which should be maintained on an imprest basis.

Response – Petty cash has been deposited in the bank. The City Treasurer’s position has been eliminated. The Council and the Mayor will be directly responsible for reviewing bank reconciliations and the City has requested and is receiving bank statements that are cut off at the end of each month.

Conclusion – Response accepted.

- (G) Separately Maintained Records – Recreation Committee transactions are maintained as separate accounting records by the Committee. These transactions and the resulting balances are not recorded in the Clerk’s records. Chapter 384.20 of the Code of Iowa states, in part, “A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose.”

Recommendation – For better accountability, financial and budgetary control, the financial activity and balances of all City accounts should be included in the City’s accounting records and annual budget and should be reported to the Council on a monthly basis.

Response – The Recreation Committee account has been closed. The funds have been deposited into the General Fund of the City. All receipts and disbursements for the Recreation Committee will be handled by the Clerk and included with the claims report each month which is submitted to the Council for approval.

Conclusion – Response accepted.

- (H) Payroll – The City did not maintain timesheets for employees to support payroll disbursements.

Recommendation – The City should review procedures to ensure timesheets for employees are maintained consistent with and to support payroll disbursements.

Response – The City will follow IRS guidelines for payroll and payroll processing and will require and maintain timesheets for all employees.

Conclusion – Response accepted.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

- (I) Computer System – During our review of internal control, the existing control activities in the City’s computer system were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City’s computer system were noted:

The City does not have written policies over the computer based financial system for:

- Establishing passwords for each user.
- Changing passwords every 60 to 90 days.
- Instructing employees about their responsibility to maintain password privacy, including not sharing their password with the employee’s supervisor.
- Addressing computer system security (including access after termination of employment or upon disciplinary action).
- Internet usage.
- A disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over the computer system.

Response – The City is developing a policy to cover the above mentioned items.

Conclusion – Response accepted.

INSTANCE OF NON-COMPLIANCE:

The Office of Auditor of State performed a special investigation of the City for the period July 1, 2004 through October 31, 2010. The special investigation report, dated April 14, 2011, identified \$65,324.06 of improper and unsupported disbursements and undeposited collections, of which \$10,223.58 pertain to the year ended June 30, 2010.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements during the year ended June 30, 2010 exceeded the amounts budgeted in the public works and business type activities functions. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – Budget amendments will be handled in a timely fashion.

Conclusion – Response accepted.

- (2) Questionable Disbursements – See the special investigation report performed by the Office of Auditor of State dated April 14, 2011.
- (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 the coverage is adequate for current operations.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.

Minutes of the Council meetings were not signed as required by Chapter 380.7 of the Code of Iowa.

The City did not publish annual gross salaries as required by Chapter 372.13(6) of the Code of Iowa and an Attorney General’s opinion dated April 12, 1978.

Recommendation – Council minutes should be signed to authenticate actions taken. Also, the City should publish annual gross salaries as required.

Response – Salaries will be published and minutes signed.

Conclusion – Response accepted.

- (7) Depository Resolution – A resolution naming official depositories has not been adopted and maintained by the City Council as required by Chapter 12C.2 of the Code of Iowa.

Recommendation – The City should adopt and maintain a depository resolution which establishes maximum amounts for each financial institution as required by Chapter 12C.2 of the Code of Iowa.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

Response – This will be approved at the October 14th meeting and will be approved annually in January.

Conclusion – Response accepted.

- (8) Revenue Notes – The City has not established a sewer revenue note sinking account and made transfers to it as required by the note resolution.

The City has not established sewer rates to produce net operating revenues equal to at least 110% of the principal and interest coming due in each year as required by the note resolution.

The City did not comply with the requirement to have an audit not later than 180 days after the end of the fiscal year as required by the note resolution.

Recommendation – The City should establish a sewer revenue note sinking account and make transfers to it as required by the note resolution. The City should establish sewer rates to produce net operating revenues equal to at least 110% of the principal and interest coming due in each year. The City should have an audit no later than 180 days after the end of the fiscal year.

Response – The City will establish a sinking account for debt retirement. Transfers to the fund will be made monthly.

The City has established sewer rates that are satisfactory to retire the sewer debt and establish a 10% reserve. The sewer rates were raised from \$9.00 per month to \$20.00 to satisfy the loan and establish a 10% reserve.

The City will consult with bond counsel to ensure it is in compliance with all applicable requirements of the revenue notes, including the issuance of audit reports in a timely manner.

Conclusion – Response accepted.

- (9) Annual Financial Report – Chapter 384.22 of the Code of Iowa requires the Annual Financial Report to be completed and filed by December 1 following the end of the fiscal year. The City's Annual Financial Report for June 30, 2009 was due December 1, 2009 and was not filed until February 1, 2010.

Also, the City did not report two loans as outstanding debt on the Annual Financial Report.

Recommendation – The City should review procedures to ensure the Annual Financial Report is completed and filed by the established deadline as required by Chapter 384.22 of the Code of Iowa and all required information should be included in the report.

Response – Debt reporting and annual financial reporting will be done in a timely manner.

Conclusion – Response accepted.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

- (10) City Ordinances – The City has not maintained an up-to-date Ordinance Book, as required by Chapter 380.8 of the Code of Iowa, which includes signed/dated copies of the most current approved ordinances, including the “Powers and Duties of Municipal Officers,” approved “Salaries of Municipal Officers” and “Water Service Rates.”

Recommendation – The City should maintain an up-to-date Ordinance Book, as required by Chapter 380.8 of the Code of Iowa, which includes signed/dated copies of the most current approved ordinances, including the “Powers and Duties of Municipal Officers,” approved “Salaries of Municipal Officers” and “Water Service Rates.”

Response – The ordinance book will be brought to a current state and maintained on a current basis.

Conclusion –Response accepted.

- (11) City Policies – The City does not have policies and procedures in place for employee use of City facilities and equipment, including City vehicles. The former Mayor used the City pickup for personal use, which the City did not report as taxable income.

The City does not have policies and procedures for credit or store purchase cards, establishing controls and approved limits for each card, applicable transaction limits or guidelines for usage of cards.

The City does not have a cell phone policy although the Water and Sewer Superintendent is receiving \$20.00 each month toward the cost of his personal cell phone to defray costs of use for City business.

Recommendation – The City should establish written policies and procedures for the appropriate use of City facilities and equipment, including personal use of City vehicles and reporting any taxable income.

The City should establish written policies and procedures for credit and/or store cards, setting approved limits for each applicable card, any transaction limits and guidelines on usage of cards.

The City should establish written policies and procedures for cell phones and related reimbursements, including reporting any taxable income.

Response – All credit cards have been cancelled. City employees will submit receipts monthly for reimbursement. Policies will be set for use of equipment.

Conclusion – Response acknowledged. Policies and procedures should also be in place for employee use of the City’s facilities and cell phone reimbursements.

- (12) Transfers and Interfund loans – During the year ended June 30, 2010, the Enterprise, Water Fund transferred \$6,000 to the Enterprise, Sewer Fund and \$9,000 was transferred from the Enterprise, Sewer Fund to the Special Revenue, Road Use Tax Fund. The former City Clerk recorded these transfers as interfund loans at the end of each fiscal year to eliminate deficit fund balances. The transfers for interfund loans were not approved by the City Council. Also, the City has not maintained records of outstanding interfund loan balances and payments on the loans.

City of Stockton
Schedule of Findings
Year ended June 30, 2010

Recommendation – All transfers for interfund loans should be approved by the City Council prior to any transfers or interfund loan transactions. The City should maintain outstanding balances and payments on the loans.

Response – Transfers will no longer be made unless a resolution is passed by the Council prior to the transfer being made.

Conclusion – Response accepted.

- (13) Electric Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City receives an image of the front of checks, but it does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – The City has requested this from the bank and it has received bank statements with images of both front and back.

Conclusion – Response accepted.

- (14) Petition for Audit – Except as noted, all items included in the petition for audit have been resolved.

City of Stockton

Staff

This audit was performed by:

K. David Voy, CPA, Manager
Carrie L. Livingston, CPA, Senior Auditor
Daniel W. Henaman, Jr., Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large, stylized initial "A".

Andrew E. Nielsen, CPA
Deputy Auditor of State