

CITY OF PRESTON, IOWA

FINANCIAL STATEMENTS
JUNE 30, 2004

CITY OF PRESTON

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**CITY OF PRESTON
OFFICIALS**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Ritenour	Mayor	January 2005
Richard Rossmann	Mayor Pro Tem/Council Member	January 2005
Ken Larson	Council Member	January 2005
Carol Milder	Council Member	January 2007
Dave Jargo	Council Member	January 2005
Curtis Kilburg	Council Member	January 2007
Brenda Tebbe	City Clerk/Treasurer	Indefinite
James Bear	City Attorney	Indefinite



CPAs & BUSINESS ADVISORS

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, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the management of the City of Preston. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our 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 accounting principles generally accepted in the United States of America.

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 of Preston as of June 30, 2004, 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.

As described in Note 11, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments*; Statement No. 37, *Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus*; Statement No. 38, *Certain Financial Statement Note Disclosures*; and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*.

In accordance with *Government Auditing Standards*, we have also issued our report dated August 12, 2004, on our consideration of the City'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.

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The management's discussion and analysis and budgetary comparison information on pages 4 through 9 and 23 and 24 are not required parts of the basic financial statements, but are supplementary information required by accounting principles generally accepted in the United States of America. We applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003, (none of which are presented herein) and expressed unqualified opinions on those financial statements. The combining nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The combining nonmajor fund financial statements have been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Erin Bailey LLP

Dubuque, Iowa
August 12, 2004

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Preston 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, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is implementing new reporting standards for this fiscal year with changes in content and structure, much of the information is not easily comparable to prior years. However, in future years, comparisons will be more meaningful and will go further in explaining the City's financial position and results of operations.

2004 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 20.4%, or \$107,231 from fiscal 2003 to fiscal 2004. The receipts included \$137,691 in property tax, \$60,174 in option tax, \$79,040 in road use tax funds, and \$49,024 in other intergovernmental revenue.
- Disbursements decreased 1.4%, or \$29,761, in fiscal 2004 from fiscal 2003. Public safety and electric disbursements decreased \$82,393 and \$104,515, respectively, while garbage increased \$76,301.
- The City's total cash basis net assets decreased 10.0%, or \$161,042 from June 30, 2003 to June 30, 2004. Of this amount, the assets of the governmental activities increased \$46,706. The assets of the business-type activities decreased by \$207,748.

USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements as well as 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 nonmajor governmental funds, proprietary funds, and internal service funds.

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 accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader 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

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, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and payment in lieu of taxes finance most of these activities.
- Business-type activities of the City include water, sewer, electric, gas, garbage, and customer deposits. 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. They focus on how money flows into and out of the 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 3) the Debt Service 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 you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

- 2) Proprietary funds account for the City's Enterprise Funds and for the Internal Service Funds. Enterprise Funds are used to report business-type activities. The City maintains six Enterprise Funds to provide separate information for the water, sewer, electric, gas, garbage, and customer deposits funds. Internal Service Funds are an accounting device used to accumulate and allocate costs internally among the City's various functions.

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

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

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 increased sharply from a year ago, from \$376,806 to \$423,513. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year ended June 30,	
	2004	2003
Receipts and transfers		
Program receipts		
Charges for service	\$ 41,225	\$ 36,262
Operating grants, contributions, and restricted interest	121,671	133,692
General receipts		
Property tax	137,691	135,861
Local option sales tax	60,174	58,538
Unrestricted investment earnings	2,756	3,533
Note proceeds	-	106,000
Miscellaneous	54,630	157,494
Transfers, net	48,000	(78,792)
Total receipts and transfers	<u>466,147</u>	<u>552,588</u>
Disbursements		
Public safety	138,002	220,395
Public works	94,809	78,610
Health and social services	525	918
Culture and recreation	89,902	88,753
Community and economic development	22,359	31,711
General government	57,024	55,317
Debt service	16,819	-
Total disbursements	<u>419,440</u>	<u>475,704</u>
Increase in cash basis net assets	46,707	76,884
Cash basis net assets beginning of year	<u>376,806</u>	<u>299,922</u>
Cash basis net assets end of year	<u>\$ 423,513</u>	<u>\$ 376,806</u>

The City's total receipts for governmental activities decreased by 15.6%, or \$86,441. The total cost of all programs and services decreased by \$56,264, or 11.8%, with no new programs added this year. The decrease in receipts was primarily the result of proceeds received in the prior year from the sale of a note to finance the purchase of a new fire truck for the City.

The cost of all governmental activities this year was \$419,440 compared to \$475,704 last year. However, as shown in the Statement of Activities and Net Assets on page 10, the amount taxpayers ultimately financed for these activities was only \$256,544 because some of the cost was paid by those directly benefited from the programs (\$41,225) or by other governments and organizations that subsidized certain programs with grants, contributions and restricted interest (\$121,671). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for services decreased in 2004 from \$169,954 to \$162,896, principally due to the lack of the Gates Grant to the library. The City paid for the remaining "public benefit" portion of governmental activities with \$256,544 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business-type Activities

	Year ended June 30,	
	2004	2003
Receipts		
Program receipts		
Charges for service		
Water	\$ 97,527	\$ 96,186
Sewer	139,030	137,418
Electric	661,506	664,902
Gas	501,790	470,515
Garbage	95,827	95,677
Customer deposits	4,190	3,993
Operating grants, contributions and restricted interest	150	5,020
General receipts		
Unrestricted interest on investments	9,174	13,443
Miscellaneous	17,236	13,496
Transfers, net	(48,000)	78,792
Total receipts	1,478,430	1,579,442
Disbursements		
Water	89,349	76,589
Sewer	147,776	145,777
Electric	787,228	891,743
Gas	493,396	453,346
Garbage	165,610	89,309
Customer deposits	2,818	2,910
Total disbursements	1,686,177	1,659,674
Decrease in cash basis net assets	(207,747)	(80,232)
Cash basis net assets beginning of year	1,219,977	1,300,209
Cash basis net assets end of year	\$ 1,012,230	\$ 1,219,977

Total business-type activities disbursements for the fiscal year were \$1,686,177 compared to \$1,659,674 last year. The decrease in electric was due primarily to electric improvements to light plant in the prior year and the increase in garbage was due to the purchase of a new truck this year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$418,619, an increase of \$47,452 above last year's total. The following is the reason for the changes in fund balances of the major funds from the prior year.

The Road Use Tax Fund cash balance increased by \$41,950 to \$321,382 for the fiscal year. The City intends to use this money to upgrade the condition of all City roads.

INDIVIDUAL MAJOR BUSINESS-TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$9,664, due primarily to an increase in the sale of water and the proceeds will be used for improvements to the water tower.
- The Electric Fund cash balance decreased \$131,346 due primarily of radiator cooling system improvements at the generation plant.
- The Gas Fund cash balance decreased \$9,938 due primarily to the additional payroll expenses related to the training of an electric employee due to a retirement.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget only once during the fiscal year. It was amended and approved on May 24, 2004, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

DEBT ADMINISTRATION

At June 30, 2004, the City had \$933,260 in bonds and other long-term debt, compared to \$1,055,432 last year, as shown below.

Outstanding Debt at Year-end	
	June 30 2004
General obligation note	\$ 95,400
Revenue bonds	340,000
Revenue note	450,000
Promissory note	47,860
	<u>\$ 933,260</u>

Debt decreased as a result of principal payments made on existing debt. The City does not anticipate any new debt.

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 \$95,400 is significantly below its constitutional debt limit of \$1.6 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2005. Amount available for appropriation in the operating budget will be \$2,102,559, a decrease of 10% over the final 2004 budget. Property taxes are expected to decrease. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise. The City has added no major projects for the 2005 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain relatively unchanged by the close of 2005.

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 Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

BASIC FINANCIAL STATEMENTS

CITY OF PRESTON
STATEMENT OF ACTIVITIES AND NET ASSETS – CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions
Functions/Programs:				
Governmental activities:				
Public safety	\$ 138,002	\$ 22,465	\$ 27,700	\$ -
Public works	94,809	5,974	79,040	-
Health and social services	525	-	-	-
Culture and recreation	89,902	8,365	9,418	-
Community and economic development	22,359	-	5,513	-
General government	57,024	4,421	-	-
Debt service	16,819	-	-	-
Total governmental activities	419,440	41,225	121,671	-
Business-type activities:				
Water	89,349	97,527	-	-
Sewer	147,776	139,030	-	-
Electric	787,228	661,506	150	-
Gas	493,396	501,790	-	-
Garbage	165,610	95,827	-	-
Customer deposits	2,818	4,190	-	-
Total business-type activities	1,686,177	1,499,870	150	-
Total	\$ 2,105,617	\$ 1,541,095	\$ 121,821	\$ -

General Receipts:

Property tax levied for:
 General purposes
 Other city tax
 Unrestricted interest on investments
 Miscellaneous
 Sale of capital assets
 Transfers

Total general receipts and transfers

Change in cash basis net assets

Cash basis net assets beginning of year,
 as restated

Cash basis net assets end of year

Cash Basis Net Assets

Restricted:
 Streets
 Debt service
 Other
 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
\$ (87,837)	\$ -	\$ (87,837)
(9,795)	-	(9,795)
(525)	-	(525)
(72,119)	-	(72,119)
(16,846)	-	(16,846)
(52,603)	-	(52,603)
(16,819)	-	(16,819)
<u>(256,544)</u>	<u>-</u>	<u>(256,544)</u>
-	8,178	8,178
-	(8,746)	(8,746)
-	(125,572)	(125,572)
-	8,394	8,394
-	(69,783)	(69,783)
-	1,372	1,372
-	<u>(186,157)</u>	<u>(186,157)</u>
<u>(256,544)</u>	<u>(186,157)</u>	<u>(442,701)</u>
137,691	-	137,691
60,174	-	60,174
2,756	9,174	11,930
33,632	17,236	50,868
20,998	-	20,998
<u>48,000</u>	<u>(48,000)</u>	<u>-</u>
<u>303,251</u>	<u>(21,590)</u>	<u>281,661</u>
46,707	(207,747)	(161,040)
<u>376,806</u>	<u>1,219,977</u>	<u>1,596,783</u>
<u>\$ 423,513</u>	<u>\$ 1,012,230</u>	<u>\$ 1,435,743</u>
\$ 321,382	\$ -	\$ 321,382
5,547	137,751	143,298
-	150	150
<u>96,584</u>	<u>874,329</u>	<u>970,913</u>
<u>\$ 423,513</u>	<u>\$ 1,012,230</u>	<u>\$ 1,435,743</u>

CITY OF PRESTON**Exhibit B****STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES – GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	General	Special Revenue Road Use Tax	Other Nonmajor Governmental Funds	Total
Receipts:				
Property tax	\$ 137,691	\$ -	\$ -	\$ 137,691
Other city tax	60,174	-	-	60,174
Licenses and permits	4,421	-	-	4,421
Use of money and property	28,856	-	597	29,453
Intergovernmental	49,024	79,040	-	128,064
Charges for service	29,365	-	-	29,365
Special assessments	5,974	-	-	5,974
Miscellaneous	22,970	-	35	23,005
Total receipts	<u>338,475</u>	<u>79,040</u>	<u>632</u>	<u>418,147</u>
Disbursements:				
Operating:				
Public safety	138,002	-	-	138,002
Public works	56,974	37,090	-	94,064
Health and social services	525	-	-	525
Culture and recreation	89,902	-	-	89,902
Community and economic development	22,359	-	-	22,359
General government	57,024	-	-	57,024
Debt service	16,819	-	-	16,819
Total disbursements	<u>381,605</u>	<u>37,090</u>	<u>-</u>	<u>418,695</u>
Excess (deficiency) of receipts over (under) disbursements	<u>(43,130)</u>	<u>41,950</u>	<u>632</u>	<u>(548)</u>
Other financing sources (uses):				
Transfers in	49,935	-	-	49,935
Transfers out	-	-	(1,935)	(1,935)
Total other financing sources (uses)	<u>49,935</u>	<u>-</u>	<u>(1,935)</u>	<u>48,000</u>
Net change in cash balances	6,805	41,950	(1,303)	47,452
Cash balances beginning of year	<u>33,593</u>	<u>279,432</u>	<u>58,142</u>	<u>371,167</u>
Cash balances end of year	<u>\$ 40,398</u>	<u>\$ 321,382</u>	<u>\$ 56,839</u>	<u>\$ 418,619</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	\$ -	\$ 5,547	\$ 5,547
Unreserved:				
Designated, special revenue funds	-	-	51,292	51,292
Undesignated:				
General fund	40,398	-	-	40,398
Special revenue funds	-	321,382	-	321,382
Total cash basis fund balances	<u>\$ 40,398</u>	<u>\$ 321,382</u>	<u>\$ 56,839</u>	<u>\$ 418,619</u>

See notes to financial statements.

CITY OF PRESTON

Exhibit C

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS – GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

Total governmental funds cash balances	\$ 418,619
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Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in governmental activities in the Statement of Net Assets.

4,894**Cash basis net assets of governmental activities**\$ 423,513**Net change in cash balances**

\$ 47,452

Amounts reported for governmental activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities.

(745)**Change in cash balance of governmental activities**\$ 46,707

CITY OF PRESTON
STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES – PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004

	Enterprise Funds		
	Water	Electric	Gas
Operating receipts:			
Use of money and property	\$ 1,229	\$ 3,772	\$ 3,305
Charges for service	97,527	661,506	501,790
Total operating receipts	<u>98,756</u>	<u>665,278</u>	<u>505,095</u>
Operating disbursements:			
Salaries and wages	30,127	74,304	45,931
Employee benefits and costs	13,326	40,968	25,262
Staff development	475	1,261	7,426
Repairs, maintenance and utilities	9,036	72,851	3,436
Contractual services	24,462	298,552	398,261
Commodities	10,225	28,544	10,647
Capital outlay	1,549	172,526	1,837
Debt service	-	97,475	-
Total operating disbursements	<u>89,200</u>	<u>786,481</u>	<u>492,800</u>
Excess (deficiency) of operating receipts over (under) operating disbursements	9,556	(121,203)	12,295
Non-operating receipts			
Miscellaneous	<u>108</u>	<u>13,857</u>	<u>1,767</u>
Excess (deficiency) of receipts over (under) disbursements	9,664	(107,346)	14,062
Transfers in	-	58,000	-
Transfers out	<u>-</u>	<u>(82,000)</u>	<u>(24,000)</u>
Net change in cash balances	9,664	(131,346)	(9,938)
Cash balances beginning of year	<u>142,262</u>	<u>510,650</u>	<u>425,291</u>
Cash balances end of year	<u>\$ 151,926</u>	<u>\$ 379,304</u>	<u>\$ 415,353</u>
Cash Basis Fund Balances			
Restricted:			
Debt service	\$ -	\$ 115,544	\$ -
Other purposes	-	150	-
Unrestricted	<u>151,926</u>	<u>263,610</u>	<u>415,353</u>
Total cash basis fund balances	<u>\$ 151,926</u>	<u>\$ 379,304</u>	<u>\$ 415,353</u>

See notes to financial statements.

Other Nonmajor Enterprise Funds	Total	Internal Service Funds
\$ 868	\$ 9,174	\$ -
<u>234,857</u>	<u>1,495,680</u>	<u>3,000</u>
<u>235,725</u>	<u>1,504,854</u>	<u>3,000</u>
52,708	203,070	-
31,454	111,010	-
416	9,578	-
33,242	118,565	2,746
51,059	772,334	-
15,071	64,487	3,236
76,759	252,671	-
54,750	152,225	-
<u>315,459</u>	<u>1,683,940</u>	<u>5,982</u>
(79,734)	(179,086)	(2,982)
<u>5,844</u>	<u>21,576</u>	<u>-</u>
(73,890)	(157,510)	(2,982)
-	58,000	-
<u>-</u>	<u>(106,000)</u>	<u>-</u>
(73,890)	(205,510)	(2,982)
<u>141,423</u>	<u>1,219,626</u>	<u>5,990</u>
<u>\$ 67,533</u>	<u>\$ 1,014,116</u>	<u>\$ 3,008</u>
\$ 22,207	\$ 137,751	\$ -
-	150	-
<u>45,326</u>	<u>876,215</u>	<u>3,008</u>
<u>\$ 67,533</u>	<u>\$ 1,014,116</u>	<u>\$ 3,008</u>

CITY OF PRESTON**Exhibit E****RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES AND NET ASSETS – PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

Total enterprise funds cash balances \$ 1,014,116

Amounts reported for business-type activities in the Statement of Activities and Net Assets are different because:

The Internal Service Funds are used by management to charge the costs of the shed maintenance and to charge the reserve for insurance premiums to the individual funds. The assets of the Internal Service Funds are included in business-type activities in the Statement of Net Assets.

(1,886)

Cash basis net assets of business-type activities \$ 1,012,230

Net change in cash balances \$ (205,510)

Amounts reported for business-type activities in the Statement of Activities and Net Assets are different because:

The Internal Services Funds are used by management to charge the costs of shed maintenance and to charge the reserve for insurance premiums to the individual funds. The change in net assets of the Internal Service Funds is reported with business-type activities.

(2,237)

Change in cash balance of business-type activities \$ (207,747)

CITY OF PRESTON
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2004

NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 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, sewer, electric, gas, and garbage utilities for its citizens.

Reporting Entity

For financial reporting purposes, the City of Preston 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.

Based on the above criteria, the City has determined that there are no potential component units which must be included in the City's financial statements as of and for the year ended June 30, 2004.

Jointly Governed Organizations

The City also participates in one jointly governed organization that provides goods or services to the citizenry of the City but does 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 board: Jackson County Sanitation Disposal Agency.

Basis of Presentation

Government-wide Financial Statements - 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 services.

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

NOTES TO FINANCIAL STATEMENTS

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. All remaining governmental funds and enterprise funds are aggregated and reported as nonmajor governmental funds and nonmajor enterprise funds.

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 that are not paid from other funds.

Special Revenue:

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

The City reports the following major proprietary funds:

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

The Electric Fund accounts for the operation and maintenance of the City's electric system.

The Gas Fund accounts for the operation and maintenance of the City's gas system.

The City also reports the following additional proprietary fund:

The Internal Service Funds are utilized to account for the financing of goods or services purchased by one department of the City and provided to other departments or agencies on a cost reimbursement basis.

Measurement Focus and Basis of Accounting

The City of Preston 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 accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from nonoperating 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 nonoperating receipts and disbursements.

NOTES TO FINANCIAL STATEMENTS

When both restricted and unrestricted resources are available for use, it is the City's policy to use restricted resources first, then unrestricted resources as they are needed.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and business-type activities functions.

NOTE 2 – DEPOSITS AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2004, 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 other investments at June 30, 2004.

NOTE 3 – BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for the City's indebtedness are as follows:

Year Ending June 30	General Obligation Note		Revenue Bonds		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 10,600	\$ 3,816	\$ 42,000	\$ 15,980	\$ 65,000	\$ 20,530
2006	10,600	3,392	43,000	13,942	70,000	17,930
2007	10,600	2,968	43,000	11,884	75,000	14,955
2008	10,600	2,544	44,000	9,800	75,000	11,618
2009-2013	<u>53,000</u>	<u>6,360</u>	<u>168,000</u>	<u>16,197</u>	<u>165,000</u>	<u>12,380</u>
Total	<u>\$ 95,400</u>	<u>\$ 19,080</u>	<u>\$ 340,000</u>	<u>\$ 67,803</u>	<u>\$ 450,000</u>	<u>\$ 77,413</u>

Year Ending June 30	Promissory Note		Total	
	Principal	Interest	Principal	Interest
2005	\$ 9,572	\$ -	\$ 127,172	\$ 40,326
2006	9,572	-	133,172	35,264
2007	9,572	-	138,172	29,807
2008	9,572	-	139,172	23,962
2009-2013	<u>9,572</u>	<u>-</u>	<u>395,572</u>	<u>34,937</u>
Total	<u>\$ 47,860</u>	<u>\$ -</u>	<u>\$ 933,260</u>	<u>\$ 164,296</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

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

- (a) The bonds will only be redeemed from the future earnings of the Sewer Fund, and the bondholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the bonds on the next succeeding principal payment date.
- (c) Payments to a Sewer Reserve Account are required to maintain reserves equal to the lesser of the maximum amount of principal and interest coming due in any succeeding fiscal year or ten percent of the principal amount then outstanding.

The City made the required transfers into the Sewer Reserve Account; however, the City's Sewer Fund balance is insufficient to meet the Sewer Reserve Account and Sinking Fund requirements.

The resolutions providing for the issuance of the revenue note includes the following provisions.

- (a) The note will only be redeemed from the future earnings of the enterprise activity, and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to the Sinking Fund for the purpose of making the note principal and interest payments when due.
- (c) At delivery of the note, a sum equal to \$58,000 shall be made to the Reserve Fund for the purpose of making the note principal and interest payments if deposits in the Sinking Fund are insufficient to make such payments.
- (d) Additional monthly transfers of \$2,000 to the Improvement Fund shall be made until a specific minimum balance of \$50,000 has been accumulated. This account is restricted for the purpose of paying for the cost of capital improvements and extensions to the utility.
- (e) All funds remaining after first making the required payments into the Sinking Fund, the Reserve Fund, and Improvement Fund, and after the Reserve Fund contains the required Reserve Fund balance, the net revenues will be set aside into the Surplus Fund.

The City is in compliance with the provisions noted above.

NOTE 4 – PENSION AND RETIREMENT BENEFITS

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

NOTES TO FINANCIAL STATEMENTS

Plan members are required to contribute 3.70% of their annual covered salary, and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003, and 2002, were \$19,933, \$18,840, and \$18,386, respectively, equal to the required contributions for each year.

NOTE 5 – COMPENSATED ABSENCES

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

<u>Type of Benefit</u>	<u>Amount</u>
Vacation	\$ <u>3,989</u>

This liability has been computed based on rates of pay in effect at June 30, 2004.

NOTE 6 – INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2004, is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Special Revenue:	
	Library Trust	\$ 1,935
	Enterprise:	
	Electric	24,000
	Gas	<u>24,000</u>
		<u>\$ 49,935</u>

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

NOTE 7 – GENERAL FUND ACCOUNT BALANCES

The account balances of the General Fund as of June 30, 2004, are as follows:

General account	\$ 39,995
Police capital account	<u>403</u>
Total General Fund balance	<u>\$ 40,398</u>

(continued on next page)

NOTES TO FINANCIAL STATEMENTS

NOTE 8 – RISK MANAGEMENT

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

NOTE 9 – DESIGNATION OF FUND BALANCES

	Special Revenue
Library purchases	\$ 21,190
Fire department purchases	<u>30,102</u>
	<u>\$ 51,292</u>

NOTE 10 – DEFICIT FUND BALANCE

The Internal Service Fund, Shed Reserve, had a deficit fund balance of \$2,514 at June 30, 2004. The deficit fund balance was the result of charges not enough to cover expenditures for the year. The deficit will be eliminated by future charges for service.

NOTE 11 – ACCOUNTING CHANGE AND RESTATEMENTS

Governmental Accounting Standards Board Statement No. 34, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*, Statement No. 37, *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*, Statement No. 38, *Certain Financial Statement Note Disclosures*, and Statement No. 41, *Budgetary Comparison Schedule – Perspective Differences*, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City’s financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

The government-wide financial statement reports the City’s governmental and business-type activities. Beginning net assets have been restated to include the allocation of the Internal Service Funds.

	Governmental Activities	Business-type Activities
Cash basis net assets June 30, 2003, as previously reported	\$ 371,167	\$ 1,219,626
Internal Service Fund	<u>5,639</u>	<u>351</u>
Cash basis net assets July 1, 2003, as restated	<u>\$ 376,806</u>	<u>\$ 1,219,977</u>

NOTES TO FINANCIAL STATEMENTS

NOTE 12 – SEGMENT INFORMATION

The government issued revenue bonds to finance its sewer department, which operates the City's sewer operations. The Sewer Fund was created to fulfill the required covenants of the revenue bonds. Summary financial information for the Sewer Fund is presented below.

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

Operating receipts	
Use of money and property	\$ 292
Charges for service	139,030
Operating disbursements	<u>(147,627)</u>
Net change in cash balances	(8,305)
Cash balances beginning of year	<u>30,512</u>
Cash balances end of year	<u>\$ 22,207</u>
Cash Basis Fund Balances	
Restricted for debt service	<u>\$ 22,207</u>

NOTE 13 – PROSPECTIVE ACCOUNTING CHANGES

The Governmental Accounting Standards Board (GASB) has issued five statements not yet implemented by the City of Preston. The statements, which might impact the City of Preston, are as follows:

Statement No. 40, *Deposit and Investment Risk Disclosures* issued March 2003, will be effective for the City for the fiscal year ending June 30, 2005. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk.

Statement No. 42, *Accounting and Financial Reporting for Impairment of Capital Assets and for Insurance Recoveries* issued November 2003, will be effective for the City for the fiscal year ending June 30, 2006. This statement establishes accounting and financial reporting standards for impairment of capital assets and also clarifies and establishes accounting requirements for insurance recoveries.

Statement No. 43, *Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans* issued April 2004, will be effective for the City for the fiscal year ending June 30, 2008. This statement establishes uniform financial reporting standards for other postemployment benefit (OPEB) plans and supersedes the interim guidance included in Statement No. 26. This statement affects reporting by administrators or trustees of OPEB plan assets or by employers or sponsors that include OPEB plan assets as trust or agency funds in their financial reports.

Statement No. 44, *Economic Condition Reporting: The Statistical Section* issued May 2004, will be effective for the City for the fiscal year ending June 30, 2006. This statement amends previous guidance regarding preparation of the statistical section for governments that issue a comprehensive annual financial report.

NOTES TO FINANCIAL STATEMENTS

Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* issued June 2004, will be effective for the City for the fiscal year ending June 30, 2009. This statement establishes standards for the measurement, recognition, and display of (OPEB) expense/expenditures and related liabilities (assets), note disclosures and, if applicable, required supplementary information (RSI) in the financial reports of state and local governmental employers.

The City's management has not yet determined the effect these statements will have on the City's financial statements.

REQUIRED SUPPLEMENTARY INFORMATION

CITY OF PRESTON**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, 2004**

	Governmental Funds <u>Actual</u>	Proprietary Funds <u>Actual</u>	Less Funds Not <u>Budgeted</u>
Receipts:			
Property tax	\$ 137,691	\$ -	\$ -
Other city tax	60,174	-	-
Licenses and permits	4,421	-	-
Use of money and property	29,453	9,174	-
Intergovernmental	128,064	-	-
Charges for service	29,365	1,498,680	3,000
Special assessments	5,974	-	-
Miscellaneous	<u>23,005</u>	<u>21,576</u>	<u>-</u>
Total receipts	<u>418,147</u>	<u>1,529,430</u>	<u>3,000</u>
Disbursements:			
Public safety	138,002	-	-
Public works	94,064	-	-
Health and social services	525	-	-
Culture and recreation	89,902	-	-
Community and economic development	22,359	-	-
General government	57,024	-	-
Debt service	16,819	-	-
Business-type activities	-	1,683,940	-
Non-program	<u>-</u>	<u>5,982</u>	<u>5,982</u>
Total disbursements	<u>418,695</u>	<u>1,689,922</u>	<u>5,982</u>
Excess (deficiency) of receipts over (under) disbursements	(548)	(160,492)	(2,982)
Other financing sources (uses), net	<u>48,000</u>	<u>(48,000)</u>	<u>-</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	47,452	(208,492)	(2,982)
Balances, beginning of year	<u>371,167</u>	<u>1,225,616</u>	<u>5,990</u>
Balances, end of year	<u>\$ 418,619</u>	<u>\$ 1,017,124</u>	<u>\$ 3,008</u>

Net	Budgeted Amounts		Final to
	Original	Final	Net Variance
\$ 137,691	\$ 137,447	\$ 137,447	\$ 244
60,174	52,080	52,080	8,094
4,421	6,100	6,100	(1,679)
38,627	178,397	178,397	(139,770)
128,064	203,722	182,722	(54,658)
1,525,045	1,302,924	1,623,924	(98,879)
5,974	5,967	5,967	7
44,581	177,300	177,300	(132,719)
<u>1,944,577</u>	<u>2,063,937</u>	<u>2,363,937</u>	<u>(419,360)</u>
138,002	117,701	117,701	(20,301)
94,064	114,390	114,390	20,326
525	-	525	-
89,902	77,155	77,155	(12,747)
22,359	25,000	25,000	2,641
57,024	228,845	228,845	171,821
16,819	16,819	16,819	-
1,683,940	1,315,475	1,614,950	(68,990)
-	-	-	-
<u>2,102,635</u>	<u>1,895,385</u>	<u>2,195,385</u>	<u>92,750</u>
(158,058)	168,552	168,552	(326,610)
-	-	-	-
(158,058)	168,552	168,552	(326,610)
<u>1,590,793</u>	<u>1,590,793</u>	<u>1,590,793</u>	<u>-</u>
<u>\$ 1,432,735</u>	<u>\$ 1,759,345</u>	<u>\$ 1,759,345</u>	<u>\$ (326,610)</u>

CITY OF PRESTON

NOTES TO REQUIRED SUPPLEMENTARY INFORMATION – BUDGETARY REPORTING JUNE 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing on all funds except Internal Service 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 or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business-type activities, and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, and Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, there was one budget amendment that increased budgeted receipts and disbursements by \$300,000. The budget amendment is reflected in the final budgeted amounts.

During the year and at the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the public safety, culture and recreation, and business-type activities functions.

OTHER SUPPLEMENTARY INFORMATION

CITY OF PRESTON**Schedule 1****STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH BALANCES****NONMAJOR GOVERNMENTAL FUNDS****AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Special Revenue</u>			<u>Total</u>
	<u>Library Trust</u>	<u>Fire Department Trust</u>	<u>Debt Service</u>	
Receipts:				
Use of money and property:				
Miscellaneous	\$ 114	\$ 448	\$ 35	\$ 597
	<u>35</u>	<u>-</u>	<u>-</u>	<u>35</u>
Total receipts	149	448	35	632
Other financing uses:				
Transfers out	<u>(1,935)</u>	<u>-</u>	<u>-</u>	<u>(1,935)</u>
Net change in cash balances	(1,786)	448	35	(1,303)
Cash balance beginning of year	<u>22,976</u>	<u>29,654</u>	<u>5,512</u>	<u>58,142</u>
Cash balance end of year	<u>\$ 21,190</u>	<u>\$ 30,102</u>	<u>\$ 5,547</u>	<u>\$ 56,839</u>
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	\$ -	\$ 5,547	\$ 5,547
Unreserved:				
Designated	<u>21,190</u>	<u>30,102</u>	<u>-</u>	<u>51,292</u>
Total cash basis fund balances	<u>\$ 21,190</u>	<u>\$ 30,102</u>	<u>\$ 5,547</u>	<u>\$ 56,839</u>

CITY OF PRESTON

Schedule 2

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES – NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	Enterprise Funds			Total
	Sewer	Garbage	Customer Deposits	
Operating receipts:				
Use of money and property	\$ 292	\$ 503	\$ 73	\$ 868
Charges for service	139,030	95,827	-	234,857
Total operating receipts	<u>139,322</u>	<u>96,330</u>	<u>73</u>	<u>235,725</u>
Operating disbursements:				
Salaries and wages	27,273	25,435	-	52,708
Employee benefits and costs	11,818	19,636	-	31,454
Staff development	310	106	-	416
Repairs, maintenance and utilities	29,428	3,814	-	33,242
Contractual services	11,630	36,611	2,818	51,059
Commodities	10,869	4,202	-	15,071
Capital outlay	1,549	75,210	-	76,759
Debt service	54,750	-	-	54,750
Total operating disbursements	<u>147,627</u>	<u>165,014</u>	<u>2,818</u>	<u>315,459</u>
Deficiency of operating receipts under operating disbursements	(8,305)	(68,684)	(2,745)	(79,734)
Non-operating receipts:				
Miscellaneous	-	1,654	4,190	5,844
Net change in cash balances	(8,305)	(67,030)	1,445	(73,890)
Cash balances beginning of year	<u>30,512</u>	<u>103,827</u>	<u>7,084</u>	<u>141,423</u>
Cash balances end of year	<u>\$ 22,207</u>	<u>\$ 36,797</u>	<u>\$ 8,529</u>	<u>\$ 67,533</u>
Cash Basis Fund Balances				
Restricted for debt service	\$ 22,207	\$ -	\$ -	\$ 22,207
Unrestricted	-	36,797	8,529	45,326
Total cash basis fund balances	<u>\$ 22,207</u>	<u>\$ 36,797</u>	<u>\$ 8,529</u>	<u>\$ 67,533</u>

CITY OF PRESTON

Schedule 3

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES – INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2004**

	<u>Shed Reserve</u>	<u>Insurance Reserve</u>	<u>Total</u>
Operating receipts:			
Charges for service	\$ 3,000	\$ -	\$ 3,000
Operating disbursements:			
Repairs, maintenance and utilities	2,746	-	2,746
Commodities	3,236	-	3,236
Total operating disbursements	<u>5,982</u>	<u>-</u>	<u>5,982</u>
Net change in cash balances	(2,982)	-	(2,982)
Cash balances beginning of year	<u>468</u>	<u>5,522</u>	<u>5,990</u>
Cash balances end of year	<u>\$ (2,514)</u>	<u>\$ 5,522</u>	<u>\$ 3,008</u>
Cash Basis Fund Balances			
Unreserved	<u>\$ (2,514)</u>	<u>\$ 5,522</u>	<u>\$ 3,008</u>

CITY OF PRESTON
SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
Revenue bonds			
Sewer	August 1, 1991	4.86%	\$ 490,000
Sewer	November 25, 1992	4.62%	225,000
Total			
Revenue note			
Electric	June 1, 2002	4.00-5.00%	\$ 580,000
Promissory note			
Rural Economic Development	January 17, 2000	0%	\$ 95,720
General obligation note			
Fire truck	December 13, 2002	4.00%	\$ 106,000

Schedule 4

<u>Balance Beginning of Year</u>	<u>Issued During Year</u>	<u>Redeemed During Year</u>	<u>Balance End of Year</u>	<u>Interest Paid</u>	<u>Interest Due and Unpaid</u>
\$ 250,000	\$ -	\$ 25,000	\$ 225,000	\$ 12,160	\$ -
<u>127,000</u>	<u>-</u>	<u>12,000</u>	<u>115,000</u>	<u>5,590</u>	<u>-</u>
<u>\$ 377,000</u>	<u>\$ -</u>	<u>\$ 37,000</u>	<u>\$ 340,000</u>	<u>\$ 17,750</u>	<u>\$ -</u>
<u>\$ 515,000</u>	<u>\$ -</u>	<u>\$ 65,000</u>	<u>\$ 450,000</u>	<u>\$ 22,903</u>	<u>\$ -</u>
<u>\$ 57,432</u>	<u>\$ -</u>	<u>\$ 9,572</u>	<u>\$ 47,860</u>	<u>\$ -</u>	<u>\$ -</u>
<u>\$ 106,000</u>	<u>\$ -</u>	<u>\$ 10,600</u>	<u>\$ 95,400</u>	<u>\$ 6,219</u>	<u>\$ -</u>

CITY OF PRESTON
BOND AND NOTE MATURITIES
JUNE 30, 2004

Schedule 5

Year Ending June 30,	Revenue Bonds				
	Sewer		Sewer		Total
	Issued August 1, 1991		Issued November 25, 1992		
	Interest Rates	Amount	Interest Rates	Amount	
2005	4.86%	\$ 30,000	4.62%	\$ 12,000	
2006	4.86	30,000	4.62	13,000	43,000
2007	4.86	30,000	4.62	13,000	43,000
2008	4.86	30,000	4.62	14,000	44,000
2009	4.86	35,000	4.62	15,000	50,000
2010	4.86	35,000	4.62	15,000	50,000
2011	4.86	35,000	4.62	16,000	51,000
2012		-	4.62	17,000	17,000
Total		\$ 225,000		\$ 115,000	\$ 340,000

Year Ending June 30,	Revenue Note		Promissory Note	
	Electric		Rural Economic Development	
	Issued June 1, 2002		Issued January 17, 2000	
	Interest Rates	Amount	Interest Rates	Amount
2005	4.00%	\$ 65,000	0%	\$ 9,572
2006	4.25	70,000	0	9,572
2007	4.45	75,000	0	9,572
2008	4.65	75,000	0	9,572
2009	4.85	80,000	0	9,572
2010	5.00	85,000		-
Total		\$ 450,000		\$ 47,860

(continued)

CITY OF PRESTON
BOND AND NOTE MATURITIES
JUNE 30, 2004

Schedule 5
(continued)

Year Ending June 30,	General Obligation Note	
	Fire Truck	
	Issued December 13, 2002	
	Interest Rates	Amount
2005	4.00%	\$ 10,600
2006	4.00	10,600
2007	4.00	10,600
2008	4.00	10,600
2009	4.00	10,600
2010	4.00	10,600
2011	4.00	10,600
2012	4.00	10,600
2013	4.00	10,600
		<u>\$ 95,400</u>

CITY OF PRESTON**Schedule 6****SCHEDULE OF RECEIPTS BY SOURCE AND DISBURSEMENTS BY FUNCTION –
ALL GOVERNMENTAL FUNDS
FOR THE LAST FOUR YEARS**

	<u>2004</u>	<u>2003</u>	<u>2002</u>	<u>2001</u>
Receipts:				
Property tax	\$ 137,691	\$ 135,861	\$ 119,137	\$ 115,699
Other city tax	60,174	58,538	52,828	55,317
Licenses and permits	4,421	5,889	6,381	6,383
Use of money and property	29,453	134,037	75,997	90,301
Intergovernmental	128,064	155,120	273,799	240,505
Charges for service	29,365	27,081	27,895	11,434
Special assessments	5,974	1,700	1,384	1,495
Miscellaneous	<u>23,005</u>	<u>7,152</u>	<u>26,473</u>	<u>56,029</u>
Total	<u>\$ 418,147</u>	<u>\$ 525,378</u>	<u>\$ 583,894</u>	<u>\$ 577,163</u>
Disbursements:				
Operating:				
Public safety	\$ 138,002	\$ 220,395	\$ 215,714	\$ 150,318
Public works	94,064	78,665	82,190	133,904
Health and social services	525	918	2,070	2,722
Culture and recreation	89,902	88,753	83,876	72,223
Community and economic development	22,359	31,711	105,761	28,761
General government	57,024	55,317	58,487	188,746
Debt service	<u>16,819</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 418,695</u>	<u>\$ 475,759</u>	<u>\$ 548,098</u>	<u>\$ 576,674</u>



CPAs & BUSINESS ADVISORS

**REPORT ON COMPLIANCE AND OTHER MATTERS AND ON INTERNAL
CONTROL OVER FINANCIAL REPORTING 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 financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements and have issued our report thereon dated August 12, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America; Chapter 11 of the Code of Iowa; and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the City of Preston 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 and other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain immaterial instances of non-compliance that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004, 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. Prior year statutory comments items II-B-04 and II-I-04 have not been resolved.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the internal control over financial reporting of the City of Preston in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the ability of the City of Preston to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described in Part I of the accompanying Schedule of Findings.

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A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is not a material weakness. We also noted certain matters involving the internal control over financial reporting that we have reported to management of the City of Preston, Iowa, in a separate letter dated August 12, 2004. Prior year reportable condition item I-A-04 has not been resolved.

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 Preston and other parties to whom the City of Preston may report. This report 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 Preston 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.

Sida Baully LLP

Dubuque, Iowa
August 12, 2004

CITY OF PRESTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

Part I: Findings Related to the Financial Statements:

REPORTABLE CONDITION

I-A-04 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. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

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

Response – The City Council feels they have segregated duties to the extent possible with the existing personnel.

Conclusion – Response accepted.

Part II: Other Findings Related to Statutory Reporting:

II-A-04 Official Depositories - A resolution naming official depositories has been approved by the City Council. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.

II-B-04 Certified Budget - Disbursements during the year ended June 30, 2004, and at year end exceeded the amounts budgeted in the public safety, culture and recreation, and business-type activities functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. We recommend that City staff closely monitor the City's disbursements in the future to ensure that disbursements do not exceed the budget.

Response – The City staff in the future will monitor the City's disbursements and not exceed the budget.

Conclusion – Response accepted.

II-C-04 Questionable Disbursements - We noted no disbursements that fail to meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-D-04 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

CITY OF PRESTON
SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2004

- II-E-04 Business Transactions – No business transactions between the City and City officials or employees were noted.
- II-F-04 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 insure that the coverage is adequate for current operations.
- II-G-04 Council Minutes - No transactions were found that we believe should have been approved in the Council minutes but were not.
- II-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- II-I-04 Revenue Bonds and Notes – The City has established the appropriate accounts required by the sewer revenue bond resolution and the electric revenue note resolution. During the year, the City made the required transfers to the accounts. Even though the required transfers were made for the sewer revenue accounts, the fund balance was still insufficient to meet the sinking and reserve account requirements of the sewer revenue resolutions, so the City has a net earnings violation.

Recommendation – We recommend that the City review the status of the Sewer Fund and investigate ways to improve the cash position to comply with the bond resolution requirement regarding fund balance.

Response – The City staff will discuss with the Council ways to improve the cash position so the City complies with the bond resolution.

Conclusion – Response accepted.

- II-J-04 Payment of General Obligation Bonds – Certain general obligation bonds were paid from the General 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 General Fund to the Debt Service Fund for future funding contributions. Payments of the bonds should then be disbursed from the Debt Service Fund.

Response – The City will in the future transfer from the General Fund to the Debt Service Fund for the future funding contributions. Payments of the bonds will be disbursed from the Debt Service Fund.

Conclusion – Response accepted.