

**CITY OF PRESTON
PRESTON, IOWA**

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

JUNE 30, 2011

**CITY OF PRESTON
PRESTON, IOWA**

TABLE OF CONTENTS

		<u>Page No.</u>
Officials		1
Independent Auditor's Report		2-3
Management's Discussion and Analysis		4-9
Basic Financial Statements:	Exhibit	
Government-wide Financial Statement:		
Statement of Activities and Net Assets - Cash Basis	A	10-11
Governmental Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B	12
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	C	13
Proprietary Fund Financial Statements:		
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	D	14-15
Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Statement of Activities and Net Assets	E	16
Notes to Financial Statements		17-26
Required Supplementary Information:		
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds		27-28
Notes to Required Supplementary Information - Budgetary Reporting		29
Other Supplementary Information:	Schedule	
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1	30
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Proprietary Funds	2	31
Schedule of Cash Receipts, Disbursements and Changes in Cash Balances - Internal Service Funds	3	32
Schedule of Indebtedness	4	33
Bond and Note Maturities	5	34
Schedule of Receipts by Source and Disbursements by Function - All Governmental Funds	6	35
Independent Auditor's Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with <u>Government Auditing Standards</u>		36-37
Schedule of Findings		38-40

**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

Name	Title	Term Expires
Steve Ritenour	Mayor	January 2012
Richard Rossmann	Mayor Pro Tem/Council Member	January 2012
Ken Larson	Council Member	January 2012
Curt Gruver	Council Member	January 2014
Dave Jargo	Council Member	January 2014
Curtis Kilburg	Council Member	January 2014
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Melissa Burken-Mommsen	City Attorney	Indefinite

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. MCCARTHY, CPA
E.A. SCHILLING, CPA

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 City of Preston as of and for the year ended June 30, 2011, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Preston's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U. S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free 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.

The financial statements do not include financial data for the City's legally separate component unit. Accounting principles generally accepted in the United States of America require the financial data of the component unit to be reported with the financial data of the City's primary government unless the City also issues financial statements for the financial reporting entity that include financial data for its component unit. The City has not issued such reporting entity financial statements. The assets, liabilities, net assets, revenues, and expenses of the legally separate component unit is unknown, thus the amount by which this departure would affect the financial statements taken as a whole is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component unit, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component units of the City of Preston, as of June 30, 2011, or the changes in cash basis financial position thereof for the year then ended.

1415 LOCUST STREET
P.O. BOX 743
DUBUQUE, IOWA 52004-0743
PHONE (563) 582-7224
FAX (563) 582-6118

MEMBERS OF:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
IOWA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

www.oconnorbrooks.com

901 SPRING STREET
P.O. BOX 294
GALENA, ILLINOIS 61036
PHONE (815) 777-1880
FAX (815) 777-3092

Furthermore, in our opinion, the respective 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, 2011, 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 November 16, 2011 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.

Management's Discussion and Analysis and budgetary comparison information 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 Preston'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 six years ended June 30, 2010 (none of which are presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting with the exception of the three years ended June 30, 2010. For the three years ended June 30, 2010, we expressed an unqualified opinion on the financial statements of the various opinion units of the primary government and we expressed an adverse opinion on the aggregate discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. The other supplementary information included in Schedule 6 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 the audits of the basic financial statements for the seven years ending June 30, 2011 and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the seven years ended June 30, 2011 taken as a whole.

The basic financial statements of the City of Preston for the three years ended June 30, 2004 (none of which are presented herein) were audited by other auditors whose reports dated August 12, 2004, August 13, 2003, and August 15, 2002, expressed unqualified opinions on those statements. Their reports stated that, in their opinion, such other supplementary information (Schedule 6) was fairly stated in all material respects in relation to the basic financial statements for those year then ended, taken as a whole.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.

Dubuque, Iowa
January 6, 2012

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, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2011 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 6.1% or \$39,657 from fiscal 2010 to fiscal 2011. The receipts included \$209,685 in property tax, \$67,223 in local option tax, \$93,085 in road use tax funds, and \$172,431 in other intergovernmental revenue.
- Disbursements decreased 1.5% or \$9,507 in fiscal 2011 from fiscal 2010. Public safety, culture and recreation, electric, and gas disbursements decreased \$31,478, \$27,709, \$90,619, and \$51,300, respectively, while public works and water disbursements increased \$45,460 and \$341,489, respectively.
- The City's total cash basis net assets increased 43.7% or \$203,045 from June 30, 2010 to June 30, 2011. Of this amount, the assets of the governmental activities increased \$101,885. The assets of the business type activities increased by \$101,160.

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 nonmajor governmental funds, proprietary funds, and internal service funds, and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of 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

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, state grants, and payments in lieu of taxes finance most of these activities.
- Business type activities 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. These 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 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 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 statement for proprietary funds is 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 from a year ago, from \$(49,347) to \$52,538. 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,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service	\$ 39,934	\$ 40,235
Operating grants and contributions	151,961	150,735
Capital grants and contributions	113,555	171,574
General receipts:		
Property tax	209,685	206,282
Other city tax	71,981	71,309
Unrestricted investment earnings	2,803	1,373
Other general receipts	16,634	5,934
Sale of assets	3,932	2,700
Total receipts	\$ 610,485	\$ 650,142
Disbursements:		
Public safety	\$ 256,868	\$ 288,346
Public works	130,618	85,158
Culture and recreation	142,885	170,594
Community and economic development	15,183	14,002
General government	61,336	57,877
Debt service	21,710	22,130
Total disbursements	\$ 628,600	\$ 638,107
Change in cash basis net assets before transfers	\$ (18,115)	\$ 12,035
Transfers, net	120,000	80,000
Change in cash basis net assets	\$ 101,885	\$ 92,035
Cash basis net assets beginning of year	(49,347)	(141,382)
Cash basis net assets end of year	\$ 52,538	\$ (49,347)

Total receipts for the City's governmental activities decreased by 6.1% or \$39,657. The total cost of all programs and services decreased \$9,507 or 1.51%. The decrease in receipts is due to a decrease in grant receipts related to the fire department.

The cost of all governmental activities this year was \$628,600 compared to \$638,107 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately

financed for these activities was \$323,150 because some of the cost was paid by those directly benefited from the programs \$39,934 or by other governments and organizations that subsidized certain programs with grants and contributions \$265,516. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services decreased from \$362,544 in fiscal year 2010 to \$305,450 in fiscal year 2011. The City paid for the remaining "public benefit" portion of governmental activities with \$355,035 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,	
	2011	2010
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 185,910	\$ 158,686
Electric	996,484	985,472
Gas	402,931	474,902
Sewer	192,444	196,996
Garbage	123,211	124,532
Customer deposits	5,053	5,171
General receipts:		
Unrestricted interest on investments	7,264	7,892
Miscellaneous	113,430	106,521
Debt proceeds	375,000	---
Total receipts	<u>\$2,401,727</u>	<u>\$2,060,172</u>
Disbursements:		
Water	\$ 482,507	\$ 141,018
Electric	1,008,962	1,099,581
Gas	383,068	434,368
Sewer	184,569	187,842
Garbage	117,342	106,549
Customer deposits	4,119	6,533
Total disbursements	<u>\$2,180,567</u>	<u>\$1,975,891</u>
Change in cash basis net assets before transfers	\$ 221,160	\$ 84,281
Transfer, net	(120,000)	(80,000)
Change in cash basis net assets	\$ 101,160	\$ 4,281
Cash basis net assets beginning of year	514,036	509,755
Cash basis net assets end of year	<u>\$ 615,196</u>	<u>\$ 514,036</u>

Total business type activities disbursements for the fiscal year were \$2,180,567 compared to \$1,975,891 last year. The increase in water disbursements was due primarily to the new water system project. The decrease in electric disbursements is due to no principal or interest payments on the substation loan as this loan was paid off in the prior fiscal year. The decrease in gas disbursements was due primarily to a decrease in the cost of gas purchased.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$48,308, an increase of \$102,693 above last year's total. The following are the reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash deficit decreased from \$(188,155) to \$(112,326). The decrease of \$75,829 is due primarily to higher paid in lieu of tax transfers from the gas and electric utilities.
- The Road Use Tax Fund cash balance increased \$46,226 to \$194,732 as only half of the road use tax allocation from the state was needed to complete a street project.
- The Library Foundation Fund cash balance increased \$2,056 due to interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$80,696 due to higher monthly service charges and loan proceeds for the water system improvements that had not been used for construction costs as of the end of the fiscal year.
- The Electric Fund cash balance increased only \$12,809 due to the decrease in debt service payments being offset by higher purchased power costs and a higher paid in lieu of tax transfer to the General Fund.
- The Gas Fund cash balance decreased \$9,222 as the result of a higher paid in lieu of tax transfer to the General Fund.
- The Garbage Fund cash balance increased only \$8,692 due to higher operating costs.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 23, 2011, to provide for additional spending that wasn't budgeted. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$531,165 less than budgeted. This was primarily due to applying for grants that were not awarded to the city and loan proceeds incorrectly included in charges for services in the budget.

The City exceeded the amounts budgeted in the culture and recreation, general government and business type activities functions for the year ended June 30, 2011 due to over spending.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$603,833 in bonds and other long-term debt, compared to \$351,980 last year, as shown below.

	Outstanding Debt at Year End	
	June 30,	
	2011	2010
General obligation notes	\$ 112,833	\$ 128,980
Revenue bonds	17,000	68,000
Revenue note	339,000	---
Other obligations	135,000	155,000
Total	\$ 603,833	\$ 351,980

Debt increased as a result of a new revenue note for improvements to the water system. 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 \$112,833 is significantly below its constitutional debt limit of \$2.2 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2012. Amount available for appropriation in the operating budget will be \$2,588,638, a decrease of 12% from the final 2011 budget. Property taxes are expected to increase approximately \$6,800 due to only a small increase in the assessed property valuations. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise.

If these estimates are realized, the City's budgeted cash balance is expected to increase approximately \$60,000.

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**

EXHIBIT "A"

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Functions/Programs:							
Governmental Activities:							
Public safety	\$ 256,868	\$ 32,405	\$ 41,600	\$ 63,555	\$ (119,308)	\$ ---	\$ (119,308)
Public works	130,618	432	93,085	---	(37,101)	---	(37,101)
Culture and recreation	142,885	1,880	17,276	50,000	(73,729)	---	(73,729)
Community and economic development	15,183	---	---	---	(15,183)	---	(15,183)
General government	61,336	5,217	---	---	(56,119)	---	(56,119)
Debt service	21,710	---	---	---	(21,710)	---	(21,710)
Total Governmental Activities	\$ 628,600	\$ 39,934	\$ 151,961	\$ 113,555	\$ (323,150)	\$ ---	\$ (323,150)
Business Type Activities:							
Water	\$ 482,507	\$ 185,910	\$ ---	\$ ---	\$ ---	\$ (296,597)	\$ (296,597)
Electric	1,008,962	996,484	---	---	---	(12,478)	(12,478)
Gas	383,068	402,931	---	---	---	19,863	19,863
Sewer	184,569	192,444	---	---	---	7,875	7,875
Garbage	117,342	124,666	---	---	---	7,324	7,324
Customer deposits	4,119	5,053	---	---	---	934	934
Total Business Type Activities	\$ 2,180,567	\$ 1,907,488	\$ ---	\$ ---	\$ ---	\$ (273,079)	\$ (273,079)
Total	\$ 2,809,167	\$ 1,947,422	\$ 151,961	\$ 113,555	\$ (323,150)	\$ (273,079)	\$ (596,229)

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts and Transfers:						
Property tax levied for general purposes				\$ 209,685	\$ ---	\$ 209,685
Other city tax				71,981	---	71,981
Unrestricted interest on investments				2,803	7,264	10,067
Miscellaneous				16,634	91,975	108,609
Note proceeds				---	375,000	375,000
Interfund debt repayment				---	20,000	20,000
Sale of assets				3,932	---	3,932
Transfers				120,000	(120,000)	---
Total General Receipts and Transfers				\$ 425,035	\$ 374,239	\$ 799,274
Change in Cash Basis Net Assets				\$ 101,885	\$ 101,160	\$ 203,045
Cash Basis Net Assets Beginning of Year				(49,347)	514,036	464,689
Cash Basis Net Assets End of Year				\$ 52,538	\$ 615,196	\$ 667,734
Cash Basis Net Assets:						
Restricted:						
Expendable:						
Debt service				---	\$ 29,757	\$ 29,757
Library				53,676	---	53,676
Streets				194,732	---	194,732
Unrestricted (deficit)				(195,870)	585,439	389,569
Total Cash Basis Net Assets				\$ 52,538	\$ 615,196	\$ 667,734

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS
AND CHANGES IN CASH BALANCES - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Special Revenue				
	General	Road Use Tax	Library Foundation	Nonmajor	Total
Receipts:					
Property tax	\$ 209,685	\$ ---	\$ ---	\$ ---	\$ 209,685
Other city tax	71,981	---	---	---	71,981
Licenses and permits	3,642	---	---	---	3,642
Use of money and property	1,798	---	2,580	---	4,378
Intergovernmental	172,431	93,085	---	---	265,516
Charges for services	34,101	---	---	---	34,101
Special assessments	140	---	---	292	432
Miscellaneous	16,818	---	---	---	16,818
Total Receipts	\$ 510,596	\$ 93,085	\$ 2,580	\$ 292	\$ 606,553
Disbursements:					
Operating					
Public safety	\$ 256,868	\$ ---	\$ ---	\$ ---	\$ 256,868
Public works	82,951	46,859	---	---	129,810
Culture and recreation	142,361	---	524	---	142,885
Community and economic development	15,183	---	---	---	15,183
General government	61,336	---	---	---	61,336
Debt service	---	---	---	21,710	21,710
Total Disbursements	\$ 558,699	\$ 46,859	\$ 524	\$ 21,710	\$ 627,792
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (48,103)	\$ 46,226	\$ 2,056	\$ (21,418)	\$ (21,239)
Other Financing Sources (Uses):					
Sale of assets	\$ 3,932	\$ ---	\$ ---	\$ ---	\$ 3,932
Operating transfers in	120,000	---	---	---	120,000
Total Other Financing Sources (Uses)	\$ 123,932	\$ ---	\$ ---	\$ ---	\$ 123,932
Net Change in Cash Balances	\$ 75,829	\$ 46,226	\$ 2,056	\$ (21,418)	\$ 102,693
Cash Balances Beginning of Year, as Restated	(188,155)	148,506	51,620	(66,356)	(54,385)
Cash Balances End of Year	\$ (112,326)	\$ 194,732	\$ 53,676	\$ (87,774)	\$ 48,308
Cash Basis Fund Balances:					
Restricted for:					
Streets	\$ ---	\$ ---	\$ 53,676	\$ ---	\$ 53,676
Library	---	194,732	---	---	194,732
Unassigned	(112,326)	---	---	(87,774)	(200,100)
Total Cash Basis Fund Balances	\$ (112,326)	\$ 194,732	\$ 53,676	\$ (87,774)	\$ 48,308

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**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, 2011**

Total governmental funds cash balances	\$	48,308
---	----	--------

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

4,230

Cash basis net assets of governmental activities	\$	52,538
---	----	--------

52,538
=====

Net change in cash balances	\$	102,693
------------------------------------	----	---------

102,693

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.

(808)

Change in cash balance of governmental activities	\$	101,885
--	----	---------

(808)
101,885
=====

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise						Internal Service
	Water	Electric	Gas	Garbage	Nonmajor	Total	Service
Operating Receipts:							
Charges for services	\$ 185,910	\$ 996,484	\$ 402,931	\$ 124,666	\$ 197,497	\$ 1,907,488	\$ ----
Miscellaneous	---	59,370	---	---	---	59,370	---
Total Operating Receipts	\$ 185,910	\$ 1,055,854	\$ 402,931	\$ 124,666	\$ 197,497	\$ 1,966,858	\$ ----
Operating Disbursements:							
Salaries and wages	\$ 33,392	\$ 73,915	\$ 35,874	\$ 32,891	\$ 27,389	\$ 203,461	\$ ----
Employee benefits and costs	17,868	49,061	25,951	27,066	16,362	136,308	---
Staff development	902	2,030	5,583	14	547	9,076	---
Repairs, maintenance, and utilities	15,751	36,733	5,169	9,419	20,678	87,750	2,559
Contractual services	25,010	783,018	300,930	43,294	20,180	1,172,432	---
Commodities	16,258	47,450	7,017	4,010	11,463	86,198	679
Capital outlay	3,848	15,945	1,896	---	12,659	34,348	---
Total Operating Disbursements	\$ 113,029	\$ 1,008,152	\$ 382,420	\$ 116,694	\$ 109,278	\$ 1,729,573	\$ 3,238
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 72,881	\$ 47,702	\$ 20,511	\$ 7,972	\$ 88,219	\$ 237,285	\$ (3,238)

EXHIBIT "D" (Continued)

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES IN CASH
BALANCES - PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Enterprise							Internal Service
	Water	Electric	Gas	Garbage	Nonmajor	Total		
Non-Operating Receipts (Disbursements):								
Interest on investments	\$ 303	4	\$ 6,766	\$ 144	\$ 47	\$ 7,264	\$ ---	
Miscellaneous	1,828	25,103	3,501	576	1,597	32,605	---	
Proceeds of revenue note	375,000	---	---	---	---	375,000	---	
Repayment of interfund loan	---	---	20,000	---	---	20,000	---	
Debt service	(45,458)	---	---	---	(79,248)	(124,706)	---	
Capital projects	(323,858)	---	---	---	---	(323,858)	---	
Net Non-Operating Receipts (Disbursements)	\$ 7,815	\$ 25,107	\$ 30,267	\$ 720	\$ (77,604)	\$ (13,695)	\$ ---	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 80,696	\$ 72,809	\$ 50,778	\$ 8,692	\$ 10,615	\$ 223,590	\$ (3,238)	
Operating Transfers Out	---	(60,000)	(60,000)	---	---	(120,000)	---	
Net Change in Cash Balances	\$ 80,696	\$ 12,809	\$ (9,222)	\$ 8,692	\$ 10,615	\$ 103,590	\$ (3,238)	
Cash Balances Beginning of Year	130,712	(90,926)	353,199	100,525	21,970	515,480	3,594	
Cash Balances End of Year	\$ 211,408	\$ (78,117)	\$ 343,977	\$ 109,217	\$ 32,585	\$ 619,070	\$ 356	
Cash Basis Fund Balances:								
Restricted for debt service	\$ 19,797	---	---	---	\$ 9,960	\$ 29,757	\$ ---	
Unrestricted	191,611	(78,117)	343,977	109,217	22,625	589,313	356	
Total Cash Basis Fund Balances	\$ 211,408	\$ (78,117)	\$ 343,977	\$ 109,217	\$ 32,585	\$ 619,070	\$ 356	

**CITY OF PRESTON
PRESTON, IOWA**

**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, 2011**

Total enterprise funds cash balances	\$ 619,070
---	-------------------

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.

(3,874)

Cash basis net assets of business type activities	\$ 615,196
--	-------------------

Net change in cash balances	\$ 103,590
------------------------------------	-------------------

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 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.

(2,430)

Change in cash balance of business type activities	\$ 101,160
---	-------------------

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

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, 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.

A. 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. The City has one component unit which meets the Governmental Accounting Standards Board criteria, the Preston Volunteer Fire Department. This component unit has not been included in the City's financial statements.

Jointly Governed Organizations

The City 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.

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 services.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

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

Expendable 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. 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 the road use tax allocation from the State of Iowa to be used for road construction and maintenance.

The Library Foundation Fund is used to account for donations which are restricted to use for the library.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies: (Continued)

B. Basis of Presentation (Continued)

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

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

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

The City also reports the following additional proprietary fund:

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.

C. 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 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.

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

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 1 - Summary of Significant Accounting Policies: (Continued)

C. Measurement Focus and Basis of Accounting (Continued)

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. Governmental Cash Basis Fund Balances

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

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

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

Assigned – Amounts the Council intends to use for specific purposes.

Unassigned – All amounts not included in other spendable classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and business type activities functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2011 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.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 2 - Cash and Pooled Investments: (Continued)

At June 30, 2011, the City had the following investments:

Type	Fair Value	Maturity
Maquoketa Area Foundation	\$ 53,676	N/A

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

Credit Risk - The City's investment in the Maquoketa Area Foundation is unrated.

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		General Obligation Note		Revenue Bonds	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 10,600	\$ 848	\$ 5,966	\$ 3,871	\$ 17,000	\$ 255
2013	10,600	424	6,226	3,612	---	---
2014	---	---	6,495	3,341	---	---
2015	---	---	6,778	3,058	---	---
2016	---	---	7,073	2,764	---	---
2017-2021	---	---	40,251	8,933	---	---
2022-2023	---	---	18,844	1,018	---	---
Total	\$ 21,200	\$ 1,272	\$ 91,633	\$ 26,597	\$ 17,000	\$ 255

Year Ending June 30	Revenue Note		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 32,000	\$ 13,560	\$ 20,000	\$ 5,647	\$ 85,566	\$ 24,181
2013	33,000	12,280	20,000	4,837	69,826	21,153
2014	35,000	10,960	20,000	4,018	61,495	18,319
2015	36,000	9,560	25,000	3,188	67,778	15,806
2016	37,000	8,120	25,000	2,138	69,073	13,022
2017-2021	166,000	16,920	25,000	1,075	231,251	26,928
2021-2023	---	---	---	---	18,844	1,018
Total	\$ 339,000	\$ 71,400	\$ 135,000	\$ 20,903	\$ 603,833	\$ 120,427

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 3 - Bonds and Notes Payable: (Continued)

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$715,000 in sewer revenue bonds issued in August 1991 and November 1992. Proceeds from the bonds provided financing for improvements to the sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require less than 60 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$17,255. For the current year, principal and interest paid and total customer net receipts were \$52,800 and \$87,285, respectively.

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.

The City did comply with all of the provisions of the sewer bonds during the year ended June 30, 2011.

Revenue Notes

The City has pledged future water customer receipts, net of specified operating disbursements, to repay \$375,000 in water revenue notes issued in October 2010. Proceeds from the notes provided financing for improvements to the water system. The notes are payable solely from water customer net receipts and are payable through 2020. Annual principal and interest payments on the notes are expected to require less than 65 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$410,400. For the current year, principal and interest paid and total customer net receipts were \$45,458 and \$72,881, respectively.

The resolution providing for the issuance of the water revenue notes include the following provisions:

- (a) The notes will only be redeemed from the future earnings of the Water Fund, and the noteholders hold a lien on the future earnings of the fund.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 3 - Bonds and Notes Payable: (Continued)

- (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 notes on the next succeeding principal payment date.

The City did comply with all of the provisions of the water notes during the year ended June 30, 2011.

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.

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% 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 years ended June 30, 2011, 2010, and 2009, were \$28,527, \$26,699, and \$26,841, respectively, equal to the required contributions for each year.

Note 5 - Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are 8 active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

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

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$461 for single coverage and \$1,151 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2011, the City contributed \$114,429 and plan members eligible for benefits contributed \$0 to the plan.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 6 - 28E Agreement:

On June 14, 2010, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

On June 14, 2010, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville.

Note 7 - 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 vacation payable to employees at June 30, 2011, primarily relating to the General Fund, is \$7,689. The liability has been computed based on rates of pay as of June 30, 2011.

Note 8 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

Transfer to -----	Transfer from -----	Amount -----
General	Enterprise:	
	Electric	\$ 60,000
	Gas	60,000

		\$ 120,000
		=====

Transfers are used to move receipts from user fee generated funds to the general fund for certain administrative and other costs in the general fund.

Note 9 - 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.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 10 - Commitments and Contingencies:

In April 2010, the City approved a \$25,000 donation for the purchase of two ambulances to be paid over a period of three years. The first payment was made in July 2011.

In April 2010, the City entered into two contracts for services related to water system improvements totaling \$384,974. Payments of \$348,133 have been made on these contracts as of June 30, 2011.

During 2006, the City was named in litigation filed by an energy cooperative claiming it did not receive payment for the use of its electrical transmission lines and substations. The City intends to defend itself vigorously in this matter; however, settlement negotiations began during fiscal year 2011 and the case is expected to be settled prior to trial, which is scheduled for September 10, 2012. The City is unable to estimate a range of possible loss, if any.

Note 11 - General Fund Account Balances:

The account balances of the General Fund as of June 30, 2011, are as follows:

General	\$ (130,090)
Police capital account	464
Library trust	14,397
Fire department trust	2,903

Total General Fund Balance	\$ <u><u>(112,326)</u></u>

Note 12 - Deficit Fund Balance:

The General Fund, Special Assessment, and Debt Service Funds had deficit fund balances of \$112,326, \$937 and \$86,837, respectively, at June 30, 2011 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts.

The Electric Enterprise Fund had a deficit fund balance of \$78,117, at June 30, 2011. The deficit fund balance is the result of disbursements in excess of charges for service. The deficit will be eliminated by future charges for service.

The Internal Service, Shed Reserve Fund had a deficit fund balance of \$5,166, at June 30, 2011. The deficit is the result of disbursements in excess of receipts. The deficit will be eliminated by future transfers from other funds.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2011**

Note 13 - 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 as follows:

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

Operating receipts	\$	192,444
Operating disbursements		(105,159)

Operating income	\$	87,285
Net non-operating receipts (disbursements)		(77,619)

Net change in cash balances	\$	9,666
Cash balance beginning of year		8,163

Cash balance end of year	\$	17,829
		=====

Note 14 - Accounting Change/Restatement:

Governmental Accounting Standards Board Statement No. 54, Fund Balance Reporting and Governmental Fund Type Definitions, was implemented during the year ended June 30, 2011. The effect of fund type reclassifications is as follows:

	General	Special Revenue	
		Library Trust	Fire Department Trust
	-----	-----	-----
Balances June 30, 2010, as previously reported	\$ (205,454)	\$ 14,396	\$ 2,903
Change in fund type classification per implementation of GASB Statement No. 54	17,299	(14,396)	(2,903)
	-----	-----	-----
Balances July 1, 2010, as restated	\$ (188,155)	\$ ---	\$ ---
	=====	=====	=====

Note 15 - Subsequent Events:

In October 2011, the City entered into a contract for the replacement of pipes for an elevated water storage tank totaling \$22,800.

Management has evaluated subsequent events through January 6, 2012, the date on which the financial statements were available to be issued.

**REQUIRED
SUPPLEMENTARY
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**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, 2011**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Receipts:							
Property tax	\$ 209,685	\$ ---	\$ ---	\$ 209,685	\$ 209,035	\$ 209,035	\$ 650
Other city tax	71,981	---	---	71,981	72,410	72,410	(429)
Licenses and permits	3,642	---	---	3,642	2,600	2,600	1,042
Use of money and property	4,378	7,264	---	11,642	22,200	22,200	(10,558)
Intergovernmental	265,516	---	---	265,516	264,000	400,000	(134,484)
Charges for services	34,101	1,907,488	---	1,941,589	2,164,700	2,374,700	(433,111)
Special assessments	432	---	---	432	500	500	(68)
Miscellaneous	16,818	111,975	---	128,793	83,000	83,000	45,793
Total Receipts	\$ 606,553	\$ 2,026,727	\$ ---	\$ 2,633,280	\$ 2,818,445	\$ 3,164,445	\$ (531,165)
Disbursements:							
Public safety	\$ 256,868	\$ ---	\$ ---	\$ 256,868	\$ 192,660	\$ 278,660	\$ 21,792
Public works	129,810	---	---	129,810	94,050	146,050	16,240
Culture and recreation	142,885	---	---	142,885	86,150	141,150	(1,735)
Community and economic development	15,183	---	---	15,183	199,000	199,000	183,817
General government	61,336	---	---	61,336	60,005	60,005	(1,331)
Debt service	21,710	---	---	21,710	22,073	22,073	363
Capital projects	---	---	---	---	450,000	450,000	450,000
Business type activities	---	2,181,375	3,238	2,178,137	1,808,607	2,018,607	(159,530)
Total Disbursements	\$ 627,792	\$ 2,181,375	\$ 3,238	\$ 2,805,929	\$ 2,912,545	\$ 3,315,545	\$ 509,616

CITY OF PRESTON
PRESTON, IOWA

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, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Required to be Budgeted	Total	Budgeted Amounts		Final to Total Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (21,239)	\$ (154,648)	\$ (3,238)	\$ (172,649)	\$ (94,100)	\$ (151,100)	\$ (21,549)
Other Financing Sources (Uses), Net	123,932	255,000	---	378,932	---	57,000	321,932
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ 102,693	\$ 100,352	\$ (3,238)	\$ 206,283	\$ (94,100)	\$ (94,100)	\$ 300,383
Balances, Beginning of Year	(54,385)	519,074	3,594	461,095	459,043	459,043	2,052
Balances, End of Year	\$ 48,308	\$ 619,426	\$ 356	\$ 667,378	\$ 364,943	\$ 364,943	\$ 302,435

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
JUNE 30, 2011**

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 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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts by \$403,000 and budgeted disbursements by \$403,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2011, disbursements exceeded the amounts budgeted in the culture and recreation, general government, and business-type activities functions.

**OTHER
SUPPLEMENTARY
INFORMATION**

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Special Revenue -----		
	Special Assessments -----	Debt Service -----	Total -----
Receipts:			
Special assessments	\$ 292	\$ ---	\$ 292
Disbursements:			
Debt service	---	21,710	21,710
Net Change in Cash Balances	\$ 292	\$ (21,710)	\$ (21,418)
Cash Balances Beginning of Year, as Restated	(1,229)	(65,127)	(66,356)
Cash Balances End of Year	\$ (937)	\$ (86,837)	\$ (87,774)
Cash Basis Fund Balances:			
Unassigned	\$ (937)	\$ (86,837)	\$ (87,774)

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011**

	Enterprise Funds		
	Sewer	Customer Deposits	Total
Operating Receipts:			
Charges for services	\$ 192,444	\$ 5,053	\$ 197,497
Operating Disbursements:			
Salaries and wages	\$ 27,389	\$ ---	\$ 27,389
Employee benefits and costs	16,362	---	16,362
Staff development	547	---	547
Repairs, maintenance and utilities	20,678	---	20,678
Contractual services	16,061	4,119	20,180
Commodities	11,463	---	11,463
Capital outlay	12,659	---	12,659
Total Operating Disbursements	\$ 105,159	\$ 4,119	\$ 109,278
Excess of Operating Receipts Over Operating Disbursements	\$ 87,285	\$ 934	\$ 88,219
Non-Operating Receipts (Disbursements):			
Interest on investments	\$ 32	\$ 15	\$ 47
Miscellaneous	1,597	---	1,597
Debt service	(79,248)	---	(79,248)
Net Non-Operating Receipts (Disbursements)	\$ (77,619)	\$ 15	\$ (77,604)
Net Change in Cash Balances	\$ 9,666	\$ 949	\$ 10,615
Cash Balances Beginning of Year	8,163	13,807	21,970
Cash Balances End of Year	\$ 17,829	\$ 14,756	\$ 32,585
Cash Basis Fund Balances:			
Restricted for debt service	\$ 9,960	\$ ---	\$ 9,960
Unrestricted	7,869	14,756	22,625
Total Cash Basis Fund Balances	\$ 17,829	\$ 14,756	\$ 32,585

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2011

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Charges for service	\$ ---	\$ ---	\$ ---
	-----	-----	-----
Operating Disbursements:			
Repairs, maintenance and utilities	\$ 2,559	\$ ---	\$ 2,559
Commodities	679	---	679
	-----	-----	-----
Total Operating Disbursements	\$ 3,238	\$ ---	\$ 3,238
	-----	-----	-----
Net Change in Cash Balances	\$ (3,238)	\$ ---	\$ (3,238)
	-----	-----	-----
Cash Balances Beginning of Year	(1,928)	5,522	3,594
	-----	-----	-----
Cash Balances End of Year	\$ (5,166)	\$ 5,522	\$ 356
	=====	=====	=====
Cash Basis Fund Balances:			
Unrestricted	\$ (5,166)	\$ 5,522	\$ 356
	=====	=====	=====

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE "4"

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Note: Water	October 14, 2010	4.00%	\$ 375,000	\$ ---	\$ 375,000	\$ 36,000	\$ 339,000	\$ 9,458	\$ ---
Revenue Bonds: Sewer	August 1, 1991	3.00%	\$ 490,000	\$ 35,000	\$ ---	\$ 35,000	\$ ---	\$ 1,050	\$ ---
Sewer	November 25, 1992	3.00%	225,000	33,000	---	16,000	17,000	750	---
Total			\$ 68,000	\$ ---	\$ ---	\$ 51,000	\$ 17,000	\$ 1,800	\$ ---
General Obligation Note: Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 31,800	\$ ---	\$ 10,600	\$ 21,200	\$ 1,273	\$ ---
Fire truck	August 26, 2008	4.30%	109,000	97,180	---	5,547	91,633	4,290	---
Total			\$ 128,980	\$ ---	\$ ---	\$ 16,147	\$ 112,833	\$ 5,563	\$ ---
Other Obligation: Sewer Fund - Interfund Loan	August 27, 2007	3.90-4.30%	\$ 210,000	\$ 155,000	\$ ---	\$ 20,000	\$ 135,000	\$ 6,448	\$ ---

CITY OF PRESTON
PRESTON, IOWA

BOND AND NOTE MATURITIES
JUNE 30, 2011

Year Ending June 30	Revenue Note		Revenue Bond		Total	Other Obligation	
	Water		Sewer			Sewer	
	Issued October 14, 2010		Issued November 25, 1992				
	Interest Rates	Amount	Interest Rates	Amount			Interest Rates
2012	4.00%	\$ 32,000	3.00%	\$ 17,000		4.05%	\$ 20,000
2013	4.00%	33,000		---		4.10%	20,000
2014	4.00%	35,000		---		4.15%	20,000
2015	4.00%	36,000		---		4.20%	25,000
2016	4.00%	37,000		---		4.25%	25,000
2017	4.00%	39,000		---		4.30%	25,000
2018	4.00%	41,000		---			---
2019	4.00%	42,000		---			---
2020	4.00%	44,000		---			---
Total		\$ 339,000		\$ 17,000			\$ 135,000

Year Ending June 30	General Obligation Note				Total	Other Obligation	
	Fire Truck		Fire Truck			Sewer	
	Issued December 13, 2002		Issued August 26, 2008				
	Interest Rates	Amount	Interest Rates	Amount			Interest Rates
2012	4.00%	\$ 10,600	4.30%	\$ 5,966	\$ 16,566	4.05%	\$ 20,000
2013	4.00%	10,600	4.30%	6,226	16,826	4.10%	20,000
2014		---	4.30%	6,495	6,495	4.15%	20,000
2015		---	4.30%	6,778	6,778	4.20%	25,000
2016		---	4.30%	7,073	7,073	4.25%	25,000
2017		---	4.30%	7,380	7,380	4.30%	25,000
2018		---	4.30%	7,701	7,701		---
2019		---	4.30%	8,036	8,036		---
2020		---	4.30%	8,385	8,385		---
2021		---	4.30%	8,749	8,749		---
2022		---	4.30%	9,129	9,129		---
2023		---	4.30%	9,715	9,715		---
Total		\$ 21,200		\$ 91,633	\$ 112,833		\$ 135,000

See accompanying independent auditor's report.

SCHEDULE "6"

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF RECEIPTS BY SOURCE AND
DISBURSEMENTS BY FUNCTION - ALL GOVERNMENTAL FUNDS
FOR THE LAST TEN YEARS

	2011	2010	2009	2008	2007	2006	2005	2004	2003	2002
Receipts:										
Property tax	\$ 209,685	\$ 206,282	\$ 174,342	\$ 147,711	\$ 146,562	\$ 136,435	\$ 134,029	\$ 137,691	\$ 135,861	\$ 119,137
Other city tax	67,223	66,672	66,509	65,914	65,542	56,045	55,086	60,174	58,538	52,828
Licenses and permits	8,400	7,022	7,069	7,007	6,060	10,708	2,710	4,421	5,889	6,381
Use of money and property	4,378	3,593	3,228	5,736	13,943	20,762	11,153	29,453	134,037	75,997
Intergovernmental	265,516	313,593	131,656	130,550	122,601	121,067	120,903	128,064	155,120	273,799
Charges for service	34,101	35,057	32,760	32,708	37,267	26,154	25,927	29,365	27,081	27,895
Special assessments	432	573	436	809	23,799	421	1,353	5,974	1,700	1,384
Miscellaneous	16,818	14,650	20,552	43,847	30,008	35,102	29,722	23,005	7,152	26,473
	<u>\$ 606,553</u>	<u>\$ 647,442</u>	<u>\$ 436,552</u>	<u>\$ 434,282</u>	<u>\$ 445,782</u>	<u>\$ 406,694</u>	<u>\$ 380,883</u>	<u>\$ 418,147</u>	<u>\$ 525,378</u>	<u>\$ 583,894</u>
Disbursements:										
Operating:										
Public safety	\$ 256,868	\$ 288,346	\$ 337,198	\$ 226,036	\$ 185,318	\$ 171,555	\$ 143,485	\$ 138,002	\$ 220,395	\$ 215,714
Public works	129,810	84,611	118,477	190,783	76,383	93,386	144,658	94,064	78,665	82,190
Health and social services	---	---	---	---	---	368	550	525	918	2,070
Culture and recreation	142,885	170,594	96,346	106,851	145,582	97,272	107,733	89,902	88,753	83,876
Community and economic development	15,183	14,002	6,926	7,579	14,639	10,816	18,489	22,359	31,711	105,761
General government	61,336	57,877	59,195	58,306	54,478	51,821	52,559	57,024	55,317	58,487
Debt service	21,710	22,130	22,554	13,136	13,567	14,003	14,412	16,819	---	---
Capital projects	---	---	---	---	457,744	---	---	---	---	---
	<u>\$ 627,792</u>	<u>\$ 637,560</u>	<u>\$ 640,696</u>	<u>\$ 602,691</u>	<u>\$ 947,711</u>	<u>\$ 439,221</u>	<u>\$ 481,886</u>	<u>\$ 418,695</u>	<u>\$ 475,759</u>	<u>\$ 548,098</u>

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. McCARTHY, CPA
E.A. SCHILLING, CPA

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, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 6, 2012. We expressed an unqualified opinion on the financial statements of the various opinion units of the primary government and an adverse opinion on the aggregate discretely presented component units due to the omission of the financial data for the City's legally separate component units. In addition, we disclaimed an opinion on the required supplementary information. 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 Preston'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 opinions on the effectiveness of the City of Preston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Preston'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 discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be material weaknesses.

1415 LOCUST STREET
P.O. BOX 743
DUBUQUE, IOWA 52004-0743
PHONE (563) 582-7224
FAX (563) 582-6118

MEMBERS OF:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
IOWA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

www.oconnorbrooks.com

901 SPRING STREET
P.O. BOX 294
GALENA, ILLINOIS 61036
PHONE (815) 777-1880
FAX (815) 777-3092

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility a material misstatement of the City of Preston's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-A-11 and I-B-11 to be material weaknesses. These items were noted in the prior year audit.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Preston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters 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, 2011, 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 of Preston'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 Preston's responses and, accordingly, we express no opinion on them.

We noted certain matters that we reported to management of the City of Preston in a separate letter dated January 6, 2012.

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, 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 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.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks & Co., P.C.
Dubuque, Iowa
January 6, 2012

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-11 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 maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

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

Conclusion - Response accepted.

I-B-11 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of several funds.

Recommendation - We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

Response - We will consider this.

Conclusion - Response accepted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Statutory Reporting:

II-A-11 Certified Budget - Disbursements during the year ended June 30, 2011, exceeded the amounts budgeted in the culture and recreation, general government, 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.

Response - The budget will be amended in the future, if applicable.

Conclusion - Response accepted.

II-B-11 Questionable Disbursements - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

II-C-11 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-11 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-11 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-F-11 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-11 Deposits and Investments - No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-11 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2011**

Part II: Other Findings Related to Statutory Reporting: (Continued)

II-I-11 Financial Condition - The General Fund had a deficit balance of \$112,326; the Special Revenue, Special Assessments Fund had a deficit balance of \$937; the Debt Service Fund had a deficit balance of \$87,774; the Enterprise, Electric Fund had a deficit balance of \$78,117; and the Internal Service, Shed Reserve Fund had a deficit balance of \$5,166 at June 30, 2011. All of these funds had deficit balances in the previous fiscal year. The deficit balance in the debt service fund continues to increase due to no amounts being transferred in for the principal and interest payments due on the City's debt.

Recommendation - The City should continue to investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position. This could include other revenue sources, as well as reviewing the budget process for cost reductions. The City should also transfer funds as needed to the debt service fund to provide monies for the payment of general obligation debt.

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.

O'CONNOR, BROOKS & CO., P.C.

CERTIFIED PUBLIC ACCOUNTANTS

W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
M.A. KUEPERS, CPA
J.W. HANNAN, CPA
M.P. RUGGEBERG, CPA
P.C. McCARTHY, CPA
E.A. SCHILLING, CPA

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

In planning and performing our audit of the financial statements of the City of Preston, Iowa as of and for the year ended June 30, 2011, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control that we consider to be material weaknesses.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or to detect and correct misstatements on a timely basis. A material weakness is a deficiency or a combination of deficiencies in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the following deficiencies in the City's internal control to be material weaknesses.

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

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 maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

1415 LOCUST STREET
P.O. BOX 743
DUBUQUE, IOWA 52004-0743
PHONE (563) 582-7224
FAX (563) 582-6118

MEMBERS OF:
AMERICAN INSTITUTE OF CERTIFIED PUBLIC ACCOUNTANTS
IOWA SOCIETY OF CERTIFIED PUBLIC ACCOUNTANTS

www.oconnorbrooks.com

901 SPRING STREET
P.O. BOX 294
GALENA, ILLINOIS 61036
PHONE (815) 777-1880
FAX (815) 777-3092

B. Adjusting Journal Entries – Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made to correct the fund balance of several funds.

We recommend that the City implement procedures to reasonably assure that account balances are fairly stated.

In addition, during the course of our examination, we noted other matters that we offer for the City's review.

Library Purchases – Disbursements for library books in June 2011 were \$4,410 or 27% of total disbursements for library books. Disbursements for library supplies in June 2011 were \$2,370 or 28% of total disbursements for library supplies. The City should investigate the reason for such large amounts of purchases being made at year end to determine that all were necessary. This is especially important considering the deficit fund balance of the general fund.

Credit Cards – Credit cards are a convenient method to purchase goods and services for the City; however, the credit limit available on each card should be reviewed periodically to determine the credit limit is not higher than the City actually needs. During our testing, we determined the card used by the library has a \$35,000 credit limit. We recommend this limit be lowered to a more reasonable amount such as one month of purchases. A lower credit limit could help prevent unauthorized charges if the card were to be lost or stolen.

This communication is intended solely for the information and use of Management, Members of the City Council, and the Mayor and is not intended to be and should not be used by anyone other than these specified parties.

O'CONNOR, BROOKS & CO., P.C.

O'Connor, Brooks + Co., P.C.

Dubuque, Iowa
January 6, 2012