

**CITY OF PRESTON
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2013**

**CITY OF PRESTON
PRESTON, IOWA**

TABLE OF CONTENTS

| | | <u>Page No.</u> |
|--|-----------------|-----------------|
| Officials | | 1 |
| Independent Auditor's Report | | 2-4 |
| Management's Discussion and Analysis | | 5-10 |
| Basic Financial Statements: | Exhibit | |
| Government-wide Financial Statement: | | |
| Cash Basis Statement of Activities and Net Position | A | 11-12 |
| Governmental Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | B | 13 |
| Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position | C | 14 |
| Proprietary Fund Financial Statements: | | |
| Statement of Cash Receipts, Disbursements and Changes in Cash Balances | D | 15-16 |
| Reconciliation of the Statement of Cash Receipts, Disbursements, and Changes in Cash Balances to the Cash Basis Statement of Activities and Net Position | E | 17 |
| Notes to Financial Statements | | 18-26 |
| Other Information: | | |
| Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds | | 27-28 |
| Notes to Other Information - Budgetary Reporting | | 29 |
| 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> | | 36-38 |
| Schedule of Findings | | 39-43 |

**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

| Name | Title | Term Expires |
|------------------------|------------------------------|--------------|
| Chad Gruver | Mayor | January 2016 |
| Richard Rossmann | Mayor Pro Tem/Council Member | January 2016 |
| Ken Larson | Council Member | January 2016 |
| 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
S.H. ROBERTS, CPA
J.L. WOOLF, CPA

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of City of Preston as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. This includes the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatements, whether due to fraud or error.

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the City's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

We believe the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Basis for Adverse Opinion on Discretely Presented Component Unit

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 position, 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.

Adverse Opinion on Discretely Presented Component Unit

In our opinion, because of significance of the matter discussed in the "Basis for Adverse Opinion on Discretely Presented Component Unit" paragraph, the financial statements referred to previously do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the discretely presented component unit of the City of Preston, as of June 30, 2013, or the changes in cash basis financial position thereof for the year then ended.

Unmodified Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Preston as of June 30, 2013, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

Basis of Accounting

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which are a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

Other Matters

Supplementary and Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City 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 eight years ended June 30, 2012 (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 five years ended June 30, 2012. For the five years ended June 30, 2012, 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 discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. The supplementary information included in Schedules 1-6 is presented for purposes of additional analysis and is not a required part of the

basic financial statements.

The supplementary information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 5 through 10 and 27 through 29 has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

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

Other Reporting Required by Government Auditing Standards

In accordance with Government Auditing Standards, we have also issued our report dated January 16, 2014 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 in considering the City's internal control over financial reporting and compliance.

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

O'Connor, Brooks & Co., P.C.
Dubuque, Iowa
January 16, 2014

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, 2013. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2013 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 10.0% or \$53,710 from fiscal 2012 to fiscal 2013. The receipts included \$227,268 in property tax, \$77,163 in local option tax, and \$96,916 in road use tax funds.
- Disbursements increased 0.6% or \$17,006 in fiscal 2013 from fiscal 2012. Water and sewer disbursements decreased \$83,815 and \$103,638, respectively, while electric disbursements increased \$157,699.
- The City's total cash basis net position decreased 3.0% or \$34,476 from June 30, 2012 to June 30, 2013. Of this amount, the net position of the governmental activities increased \$160,547. The net position of the business type activities decreased \$195,023.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Supplementary Information provides detailed information about the non-major governmental funds, proprietary funds, 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 Cash Basis Statement of Activities and Net Position presents the City's net position. Over time, increases or decreases in the City's net position may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

- Governmental activities include public safety, public works, 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 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 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 position 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 \$172,980 to \$333,527. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities

| | Year Ended June 30, | |
|--|---------------------|------------|
| | 2013 | 2012 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service | \$ 39,883 | \$ 40,487 |
| Operating grants and contributions | 159,196 | 150,797 |
| Capital grants and contributions | 5,000 | 11,000 |
| General receipts: | | |
| Property tax | 227,268 | 216,937 |
| Other city tax | 82,236 | 82,026 |
| Unrestricted investment earnings | 2,962 | 2,378 |
| Other general receipts | 30,828 | 22,575 |
| Sale of assets | --- | 12,780 |
| Debt proceeds | 45,317 | --- |
| Total receipts | \$ 592,690 | \$ 538,980 |
| Disbursements: | | |
| Public safety | \$ 222,535 | \$ 212,913 |
| Public works | 121,424 | 119,745 |
| Culture and recreation | 100,641 | 91,577 |
| Community and economic development | 9,316 | 7,417 |
| General government | 76,594 | 65,583 |
| Debt service | 21,633 | 21,303 |
| Total disbursements | \$ 552,143 | \$ 518,538 |
| Change in cash basis net position before transfers | \$ 40,547 | \$ 20,442 |
| Transfers, net | 120,000 | 100,000 |
| Change in cash basis net position | \$ 160,547 | \$ 120,442 |
| Cash basis net position beginning of year | 172,980 | 52,538 |
| Cash basis net position end of year | \$ 333,527 | \$ 172,980 |

Total receipts for the City's governmental activities increased by 10.0% or \$53,710. The total cost of all programs and services increased \$33,605 or 6.5%. The increase in receipts is due loan proceeds received in fiscal year 2013. The increase in the cost of programs and services is due to the purchase of a new squad car, mower, and installation of fencing at the city park.

The cost of all governmental activities this year was \$552,143 compared to \$518,538 last year. As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was \$348,064 because some of the cost was paid by those directly

benefited from the programs \$39,883 or by other governments and organizations that subsidized certain programs with grants and contributions \$164,196. Overall, the City's governmental activities program receipts, including intergovernmental aid and fees for services remained relatively unchanged at \$202,284 in fiscal year 2012 and \$204,079 in fiscal year 2013. The City paid for the remaining "public benefit" portion of governmental activities with \$388,611 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 Position of Business Type Activities

| | Year Ended June 30, | |
|---|--------------------------|--------------------------|
| | 2013 | 2012 |
| Receipts: | | |
| Program receipts: | | |
| Charges for service: | | |
| Water | \$ 206,554 | \$ 209,585 |
| Electric | 1,165,179 | 1,088,980 |
| Gas | 388,993 | 354,505 |
| Sewer | 192,339 | 197,806 |
| Garbage | 125,466 | 132,326 |
| Customer deposits | 3,836 | 5,926 |
| General receipts: | | |
| Unrestricted interest on investments | 5,728 | 6,667 |
| Miscellaneous | 50,020 | 105,994 |
| Debt proceeds | --- | 600,000 |
| Total receipts | <u>\$2,138,115</u> | <u>\$2,701,789</u> |
| Disbursements: | | |
| Water | \$ 162,410 | \$ 246,225 |
| Electric | 1,425,698 | 1,267,999 |
| Gas | 353,209 | 348,283 |
| Sewer | 130,928 | 234,566 |
| Garbage | 136,668 | 127,720 |
| Customer deposits | 4,225 | 4,944 |
| Total disbursements | <u>\$2,213,138</u> | <u>\$2,229,737</u> |
| Change in cash basis net positions before transfers | \$ (75,023) | \$ 472,052 |
| Transfer, net | (120,000) | (100,000) |
| Change in cash basis net position | <u>\$ (195,023)</u> | <u>\$ 372,052</u> |
| Cash basis net position beginning of year | 987,248 | 615,196 |
| Cash basis net position end of year | <u><u>\$ 792,225</u></u> | <u><u>\$ 987,248</u></u> |

Total business type activities disbursements for the fiscal year were \$2,213,138 compared to \$2,229,737 last year. The decrease in water disbursements was due primarily to completion of a water project in fiscal year 2012. The increase in electric disbursements is due to an electric distribution lines project. Sewer disbursements decreased due to fiscal year 2012 disbursements including the purchase of a stand by generator.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed the year, its governmental funds reported a combined fund balance of \$329,969, an increase of \$161,030 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 was eliminated and the cash balance increased from \$(22,042) to \$92,962. The change of \$115,004 is due primarily to a contribution in lieu of taxes from the Gas and Electric Funds.
- The Road Use Tax Fund cash balance increased from \$243,958 to \$309,386 as the City is accumulating funds for future projects.
- The Library Foundation Fund cash balance increased \$1,960 due to interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$45,100 due to reduced expenses.
- The Electric Fund cash balance decreased \$295,946 due to an electric distribution line project.
- The Gas Fund cash balance remained relatively unchanged.
- The Garbage Fund cash balance decreased \$10,118 due to increased landfill costs.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 28, 2013, 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 \$513,538 less than budgeted. This was primarily due to applying for a grant that was not awarded to the City and funding for electric system improvements which was received in the prior fiscal year.

The City exceeded the amounts budgeted in the general government and business type activities functions for the year ended June 30, 2013 due to electric distribution line project costs being budgeted for under the capital projects functional area rather than business type activities.

DEBT ADMINISTRATION

At June 30, 2013, the City had \$1,071,231 in bonds and other long-term debt, compared to \$1,118,267 last year, as shown below.

| | Outstanding Debt at Year End | |
|--------------------------|------------------------------|-------------|
| | June 30, | |
| | 2013 | 2012 |
| General obligation notes | \$ 124,003 | \$ 96,267 |
| Revenue note | 852,228 | 907,000 |
| Other obligations | 95,000 | 115,000 |
| Total | \$1,071,231 | \$1,118,267 |

During fiscal year 2013, the City borrowed \$45,317 to upgrade the City's street and security lighting. The City's total debt; however, decreased as a result of principal payments made on existing 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 \$124,003 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 2014. Amount available for appropriation in the operating budget will be \$2,861,495, an increase of 14% from the final 2013 budget. Intergovernmental receipts are expected to decrease approximately \$95,000. Charges for services are expected to increase approximately \$487,000. Miscellaneous receipts are expected to increase approximately \$115,000.

If these estimates are realized, the City's budgeted cash balance is expected to decrease approximately \$20,000.

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**

**CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

| Functions/Programs: | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | | |
|---------------------------------------|---------------------|-------------------------|---------------------------------------|--|----------------------------|-----------------------------|---------------------|
| | Disbursements | Charges for Services | Operating Grants and Contributions | Capital Grants and Contributions | Governmental Activities | Business Type Activities | Total |
| Governmental Activities: | | | | | | | |
| Public safety | \$ 222,535 | \$ 33,810 | \$ 42,641 | \$ --- | \$ (146,084) | \$ --- | \$ (146,084) |
| Public works | 121,424 | 271 | 96,916 | --- | (24,237) | --- | (24,237) |
| Culture and recreation | 100,641 | 802 | 18,634 | 5,000 | (76,205) | --- | (76,205) |
| Community and economic development | 9,316 | --- | 1,005 | --- | (8,311) | --- | (8,311) |
| General government | 76,594 | 5,000 | --- | --- | (71,594) | --- | (71,594) |
| Debt service | 21,633 | --- | --- | --- | (21,633) | --- | (21,633) |
| Total Governmental Activities | \$ 552,143 | \$ 39,883 | \$ 159,196 | \$ 5,000 | \$ (348,064) | \$ --- | \$ (348,064) |
| Business Type Activities: | | | | | | | |
| Water | \$ 162,410 | \$ 206,554 | \$ --- | \$ --- | \$ --- | \$ 44,144 | \$ 44,144 |
| Electric | 1,425,698 | 1,165,179 | --- | --- | --- | (260,519) | (260,519) |
| Gas | 353,209 | 388,993 | --- | --- | --- | 35,784 | 35,784 |
| Sewer | 130,928 | 192,339 | --- | --- | --- | 61,411 | 61,411 |
| Garbage | 136,668 | 125,466 | --- | --- | --- | (11,202) | (11,202) |
| Customer deposits | 4,225 | 3,836 | --- | --- | --- | (389) | (389) |
| Total Business Type Activities | \$ 2,213,138 | \$ 2,082,367 | \$ --- | \$ --- | \$ --- | \$ (130,771) | \$ (130,771) |
| Total | \$ 2,765,281 | \$ 2,122,250 | \$ 159,196 | \$ 5,000 | \$ (348,064) | \$ (130,771) | \$ (478,835) |

See notes to financial statements.

CITY OF PRESTON
PRESTON, IOWA

CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013

| | Program Receipts | | | Net (Disbursements) Receipts and Changes in Cash Basis Net Position | | |
|--|-------------------------|---------------------------------------|-------------------------------------|--|-----------------------------|---------------------|
| | 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 | | | | \$ 227,268 | \$ --- | \$ 227,268 |
| Other city tax | | | | 82,236 | --- | 82,236 |
| Unrestricted interest on investments | | | | 2,962 | 5,728 | 8,690 |
| Miscellaneous | | | | 30,828 | 30,020 | 60,848 |
| Note proceeds | | | | 45,317 | --- | 45,317 |
| Interfund debt repayment | | | | --- | 20,000 | 20,000 |
| Transfers | | | | 120,000 | (120,000) | --- |
| Total General Receipts and Transfers | | | | \$ 508,611 | \$ (64,252) | \$ 444,359 |
| Change in Cash Basis Net Position | | | | \$ 160,547 | \$ (195,023) | \$ (34,476) |
| Cash Basis Net Position Beginning of Year | | | | 172,980 | 987,248 | 1,160,228 |
| Cash Basis Net Position End of Year | | | | \$ 333,527 | \$ 792,225 | \$ 1,125,752 |
| Cash Basis Net Position: | | | | | | |
| Restricted: | | | | | | |
| Expendable: | | | | | | |
| Debt service | | | | \$ --- | \$ 21,330 | \$ 21,330 |
| Library | | | | 57,777 | --- | 57,777 |
| Streets | | | | 309,386 | --- | 309,386 |
| Unrestricted (deficit) | | | | (33,636) | 770,895 | 737,259 |
| Total Cash Basis Net Position | | | | \$ 333,527 | \$ 792,225 | \$ 1,125,752 |

See notes to financial statements.

**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, 2013**

| | Special Revenue | | | | Total |
|---|-------------------|-------------------|-----------------------|---------------------|-------------------|
| | General | Road Use Tax | Library Foundation | Nonmajor | |
| Receipts: | | | | | |
| Property tax | \$ 227,268 | \$ --- | \$ --- | \$ --- | \$ 227,268 |
| Other city tax | 82,236 | --- | --- | --- | 82,236 |
| Licenses and permits | 2,775 | --- | --- | --- | 2,775 |
| Use of money and property | 2,517 | --- | 2,670 | --- | 5,187 |
| Intergovernmental | 66,269 | 96,916 | --- | --- | 163,185 |
| Charges for services | 34,592 | --- | --- | --- | 34,592 |
| Special assessments | --- | --- | --- | 271 | 271 |
| Miscellaneous | 31,859 | --- | --- | --- | 31,859 |
| Total Receipts | \$ 447,516 | \$ 96,916 | \$ 2,670 | \$ 271 | \$ 547,373 |
| Disbursements: | | | | | |
| Operating | | | | | |
| Public safety | \$ 222,535 | \$ --- | \$ --- | \$ --- | \$ 222,535 |
| Public works | 89,453 | 31,488 | --- | --- | 120,941 |
| Culture and recreation | 99,931 | --- | 710 | --- | 100,641 |
| Community and economic development | 9,316 | --- | --- | --- | 9,316 |
| General government | 76,594 | --- | --- | --- | 76,594 |
| Debt service | --- | --- | --- | 21,633 | 21,633 |
| Total Disbursements | \$ 497,829 | \$ 31,488 | \$ 710 | \$ 21,633 | \$ 551,660 |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | \$ (50,313) | \$ 65,428 | \$ 1,960 | \$ (21,362) | \$ (4,287) |
| Other Financing Sources (Uses): | | | | | |
| Note proceeds | \$ 45,317 | \$ --- | \$ --- | \$ --- | \$ 45,317 |
| Operating transfers in | 120,000 | --- | --- | --- | 120,000 |
| Total Other Financing Sources (Uses) | \$ 165,317 | \$ --- | \$ --- | \$ --- | \$ 165,317 |
| Change in Cash Balances | \$ 115,004 | \$ 65,428 | \$ 1,960 | \$ (21,362) | \$ 161,030 |
| Cash Balances Beginning of Year | (22,042) | 243,958 | 55,817 | (108,794) | 168,939 |
| Cash Balances End of Year | \$ 92,962 | \$ 309,386 | \$ 57,777 | \$ (130,156) | \$ 329,969 |
| Cash Basis Fund Balances: | | | | | |
| Restricted for: | | | | | |
| Library | \$ --- | \$ --- | \$ 57,777 | \$ --- | \$ 57,777 |
| Streets | --- | 309,386 | --- | --- | 309,386 |
| Assigned for: | | | | | |
| Library | 14,439 | --- | --- | --- | 14,439 |
| Fire Department | 6,403 | --- | --- | --- | 6,403 |
| Unassigned | 72,120 | --- | --- | (130,156) | (58,036) |
| Total Cash Basis Fund Balances | \$ 92,962 | \$ 309,386 | \$ 57,777 | \$ (130,156) | \$ 329,969 |

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 CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

| | |
|---|------------|
| Total governmental funds cash balances | \$ 329,969 |
|---|------------|

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the cash balances the Internal Service Funds are included in governmental activities in the Cash Basis Statement of Activities and Net Position.

3,558

| | |
|---|------------|
| Cash basis net position of governmental activities | \$ 333,527 |
|---|------------|

=====

| | |
|--------------------------------|------------|
| Change in cash balances | \$ 161,030 |
|--------------------------------|------------|

\$ 161,030

Amounts reported for governmental activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the change in the cash balances of the Internal Service Funds is reported with governmental activities in the Cash Basis Statement of Activities and Net Position.

(483)

| | |
|--|------------|
| Change in cash balance of governmental activities | \$ 160,547 |
|--|------------|

=====

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, 2013

| | Enterprise | | | | | | Internal Service Funds |
|---|-------------|--------------|------------|-------------|-------------|--------------|------------------------------|
| | Water | Electric | Gas | Garbage | Nonmajor | Total | |
| Operating Receipts: | | | | | | | |
| Charges for services | \$ 206,554 | \$ 1,165,179 | \$ 388,993 | \$ 125,466 | \$ 196,175 | \$ 2,082,367 | \$ --- |
| Operating Disbursements: | | | | | | | |
| Salaries and wages | \$ 34,883 | \$ 64,928 | \$ 36,135 | \$ 37,689 | \$ 29,896 | \$ 203,531 | \$ --- |
| Employee benefits and costs | 17,180 | 30,866 | 24,960 | 31,948 | 15,923 | 120,877 | --- |
| Staff development | 2,272 | 394 | 3,633 | 24 | 1,216 | 7,539 | --- |
| Repairs, maintenance, and utilities | 24,978 | 20,307 | 4,043 | 10,983 | 20,655 | 80,966 | 590 |
| Contractual services | 25,257 | 756,156 | 268,031 | 51,911 | 17,225 | 1,118,580 | --- |
| Commodities | 11,258 | 27,315 | 8,756 | 3,726 | 9,547 | 60,602 | 1,343 |
| Capital outlay | 1,155 | 47,974 | 7,264 | --- | 15,756 | 72,149 | --- |
| Total Operating Disbursements | \$ 116,983 | \$ 947,940 | \$ 352,822 | \$ 136,281 | \$ 110,218 | \$ 1,664,244 | \$ 1,933 |
| Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements | \$ 89,571 | \$ 217,239 | \$ 36,171 | \$ (10,815) | \$ 85,957 | \$ 418,123 | \$ (1,933) |
| Non-Operating Receipts (Disbursements) | | | | | | | |
| Interest on investments | \$ 221 | \$ 172 | \$ 5,169 | \$ 113 | \$ 53 | \$ 5,728 | \$ --- |
| Miscellaneous | 638 | 23,919 | 4,294 | 584 | 585 | 30,020 | --- |
| Repayment of interfund loan | --- | --- | 20,000 | --- | --- | 20,000 | --- |
| Debt service | (45,330) | (40,000) | --- | --- | (24,838) | (110,168) | --- |
| Capital projects | --- | (437,276) | --- | --- | --- | (437,276) | --- |
| Net Non-Operating Receipts (Disbursements) | \$ (44,471) | \$ (453,185) | \$ 29,463 | \$ 697 | \$ (24,200) | \$ (491,696) | \$ --- |

See notes to financial statements.

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, 2013

| | Enterprise | | | | | | Internal Service Funds |
|---|------------|--------------|------------|-------------|-----------|--------------|------------------------------|
| | Water | Electric | Gas | Garbage | Nonmajor | Total | |
| Excess (Deficiency) of Receipts Over (Under) Disbursements | \$ 45,100 | \$ (235,946) | \$ 65,634 | \$ (10,118) | \$ 61,757 | \$ (73,573) | \$ (1,933) |
| Transfers Out | --- | (60,000) | (60,000) | --- | --- | (120,000) | --- |
| Change in Cash Balances | \$ 45,100 | \$ (295,946) | \$ 5,634 | \$ (10,118) | \$ 61,757 | \$ (193,573) | \$ (1,933) |
| Cash Balances Beginning of Year | 175,869 | 373,848 | 329,435 | 114,873 | (2,330) | 991,695 | (409) |
| Cash Balances End of Year | \$ 220,969 | \$ 77,902 | \$ 335,069 | \$ 104,755 | \$ 59,427 | \$ 798,122 | \$ (2,342) |
| Cash Basis Fund Balances: | | | | | | | |
| Restricted for debt service | \$ 21,330 | \$ --- | \$ --- | \$ --- | \$ --- | \$ 21,330 | \$ --- |
| Unrestricted (deficit) | 199,639 | 77,902 | 335,069 | 104,755 | 59,427 | 776,792 | (2,342) |
| Total Cash Basis Fund Balances | \$ 220,969 | \$ 77,902 | \$ 335,069 | \$ 104,755 | \$ 59,427 | \$ 798,122 | \$ (2,342) |

CITY OF PRESTON
PRESTON, IOWA

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE CASH BASIS STATEMENT OF ACTIVITIES AND NET POSITION -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2013**

| | |
|---|------------|
| Total enterprise funds cash balances | \$ 798,122 |
|---|------------|

Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the cash balances of the Internal Service Funds are included in business type activities in the Cash Basis Statement of Net Position.

(5,897)

| | |
|--|------------|
| Cash basis net position of business type activities | \$ 792,225 |
|--|------------|

=====

| | |
|--------------------------------|--------------|
| Change in cash balances | \$ (193,573) |
|--------------------------------|--------------|

\$ (193,573)

Amounts reported for business type activities in the Cash Basis Statement of Activities and Net Position 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. A portion of the change in the cash balance of the Internal Service Funds is reported with business type activities in the Cash Basis Statement of Activities and Net Position.

(1,450)

| | |
|--|--------------|
| Change in cash basis net position of business type activities | \$ (195,023) |
|--|--------------|

=====

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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 Cash Basis Statement of Activities and Net Position (previously referred to as 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 Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

B. Basis of Presentation (Continued)

Unrestricted net position consists of cash balances not meeting the definition of the preceding category. Unrestricted net position often has constraints on cash balances imposed by management which can be removed or modified.

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

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

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

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.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

B. Basis of Presentation (Continued)

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

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

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

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

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

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

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 the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Other Information. During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2013 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.

At June 30, 2013, the City had the following investments:

| <u>Type</u> | <u>Fair Value</u> | <u>Maturity</u> |
|--|-------------------|-----------------|
| Community Foundation of Greater Dubuque | \$ 57,777 | N/A |

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 2 - Cash and Pooled Investments: (Continued)

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 Community Foundation of Greater Dubuque 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 Note | |
|-------------------------|-------------------------|---------------|-------------------------|------------------|-------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 4,532 | \$ --- | \$ 6,495 | \$ 3,341 | \$ 58,228 | \$ 17,325 |
| 2015 | 4,532 | --- | 6,778 | 3,058 | 40,000 | 16,065 |
| 2016 | 4,532 | --- | 7,073 | 2,764 | 40,000 | 14,805 |
| 2017 | 4,532 | --- | 7,380 | 2,457 | 40,000 | 13,545 |
| 2018 | 4,532 | --- | 7,701 | 2,136 | 40,000 | 12,285 |
| 2019-2023 | 21,902 | --- | 44,014 | 5,358 | 200,000 | 42,525 |
| 2024-2028 | --- | --- | --- | --- | 160,000 | 11,340 |
| Total | \$ 44,562 | \$ --- | \$ 79,441 | \$ 19,114 | \$ 578,228 | \$ 127,890 |

| Year Ending June 30 | Revenue Note | | Other Obligations | | Total | |
|------------------------|-------------------|------------------|-------------------|------------------|--------------------|-------------------|
| | Principal | Interest | Principal | Interest | Principal | Interest |
| 2014 | \$ 35,000 | \$ 10,960 | \$ 20,000 | \$ 4,018 | \$ 124,255 | \$ 35,644 |
| 2015 | 36,000 | 9,560 | 25,000 | 3,188 | 112,310 | 31,871 |
| 2016 | 37,000 | 8,120 | 25,000 | 2,138 | 113,605 | 27,827 |
| 2017 | 39,000 | 6,640 | 25,000 | 1,075 | 115,912 | 23,717 |
| 2018 | 41,000 | 5,080 | --- | --- | 93,233 | 19,501 |
| 2019-2023 | 86,000 | 5,200 | --- | --- | 351,916 | 53,083 |
| 2024-2028 | --- | --- | --- | --- | 160,000 | 11,340 |
| Total | \$ 274,000 | \$ 45,560 | \$ 95,000 | \$ 10,419 | \$1,071,231 | \$ 202,983 |

The Code of Iowa requires principal and interest on general obligation debt be paid from the Debt Service Fund. However, \$967 of general obligation principal and interest were paid from the General Fund during the year ended June 30, 2013.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 3 - Bonds and Notes Payable: (Continued)

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 51 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$319,560. For the current year, principal and interest paid and total customer net receipts were \$45,330 and \$89,571, 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.
- (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, 2013.

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$600,000 in electric revenue notes issued in June 2012. Proceeds from the notes will provide financing for improvements to the electric system. The notes are payable solely from electric customer net receipts and are payable through 2027. Annual principal and interest payments on the notes are expected to require less than 19 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$706,118. For the current year, principal and interest paid and total customer net receipts were \$40,000 and \$217,239, respectively.

Note 4 - Pension and Retirement Benefits:

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

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 4 - Pension and Retirement Benefits: (Continued)

Most regular plan members are required to contribute 5.78% of their annual covered salary and the City is required to contribute 8.67% 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, 2013, 2012, and 2011, were \$33,873, \$32,856, and \$28,527, 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 \$550 for single coverage and \$1,416 for family coverage. The same monthly premiums apply to retirees. For the year ended June 30, 2013, the City contributed \$106,645 and plan members eligible for benefits contributed \$5,757 to the plan.

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, 2013, primarily relating to the General Fund, is \$5,258. The liability has been computed based on rates of pay as of June 30, 2013.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 8 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2013 is as follows:

| Transfer to | Transfer from | Amount |
|-------------|---------------|------------|
| General | Enterprise: | |
| | Electric | \$ 60,000 |
| | Gas | 60,000 |
| | | \$ 120,000 |
| | | \$ 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.

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. Payments totaling \$16,666 have been paid through June 30, 2013.

Note 11 - General Fund Account Balances:

The account balances of the General Fund as of June 30, 2013, are as follows:

| | |
|----------------------------|-----------|
| General | \$ 71,655 |
| Police capital account | 465 |
| Library trust | 14,439 |
| Fire department trust | 6,403 |
| | \$ 92,962 |
| Total General Fund Balance | \$ 92,962 |

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2013**

Note 12 - Deficit Fund Balance:

The Special Assessment and Debt Service Funds had deficit fund balances of \$383 and \$129,773, respectively, at June 30, 2013 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts and transfers.

The Internal Service, Shed Reserve Fund had a deficit fund balance of \$7,864, at June 30, 2013. The deficit is the result of disbursements in excess of receipts. The deficit will be eliminated by future transfers from other funds.

Note 13 - Subsequent Events:

In October 2013, the City approved a contract in the amount of \$101,872 for the purchase of a garbage truck.

Management has evaluated subsequent events through January 16, 2014, the date on which the financial statements were available to be issued.

**OTHER
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
OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

| | 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 | \$ 227,268 | \$ --- | \$ --- | \$ 227,268 | \$ 226,572 | \$ 226,572 | \$ 696 |
| Other city tax | 82,236 | --- | --- | 82,236 | 72,764 | 72,764 | 9,472 |
| Licenses and permits | 2,775 | --- | --- | 2,775 | 3,650 | 3,650 | (875) |
| Use of money and property | 5,187 | 5,728 | --- | 10,915 | 12,000 | 12,000 | (1,085) |
| Intergovernmental | 163,185 | --- | --- | 163,185 | 370,900 | 370,900 | (207,715) |
| Charges for services | 34,592 | 2,082,367 | --- | 2,116,959 | 2,350,740 | 2,500,740 | (383,781) |
| Special assessments | 271 | --- | --- | 271 | 400 | 400 | (129) |
| Miscellaneous | 31,859 | 50,020 | --- | 81,879 | 12,000 | 12,000 | 69,879 |
| Total Receipts | \$ 547,373 | \$ 2,138,115 | \$ --- | \$ 2,685,488 | \$ 3,049,026 | \$ 3,199,026 | \$ (513,538) |
| Disbursements: | | | | | | | |
| Public safety | \$ 222,535 | \$ --- | \$ --- | \$ 222,535 | \$ 223,856 | \$ 277,156 | \$ 54,621 |
| Public works | 120,941 | --- | --- | 120,941 | 134,170 | 180,870 | 59,929 |
| Culture and recreation | 100,641 | --- | --- | 100,641 | 77,625 | 107,625 | 6,984 |
| Community and economic development | 9,316 | --- | --- | 9,316 | 197,500 | 197,500 | 188,184 |
| General government | 76,594 | --- | --- | 76,594 | 56,155 | 76,155 | (439) |
| Debt service | 21,633 | --- | --- | 21,633 | 22,000 | 22,000 | 367 |
| Capital projects | --- | --- | --- | --- | 450,000 | 450,000 | 450,000 |
| Business type activities | --- | 2,213,621 | 1,933 | 2,211,688 | 1,869,298 | 1,869,298 | (342,390) |
| Total Disbursements | \$ 551,660 | \$ 2,213,621 | \$ 1,933 | \$ 2,763,348 | \$ 3,030,604 | \$ 3,180,604 | \$ 417,256 |

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
OTHER INFORMATION
YEAR ENDED JUNE 30, 2013

| | 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 | \$ (4,287) | \$ (75,506) | \$ (1,933) | \$ (77,860) | \$ 18,422 | \$ 18,422 | \$ (96,282) |
| Other Financing Sources (Uses), Net | 165,317 | (120,000) | --- | 45,317 | --- | --- | 45,317 |
| Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses | \$ 161,030 | \$ (195,506) | \$ (1,933) | \$ (32,543) | \$ 18,422 | \$ 18,422 | \$ (50,965) |
| Balances, Beginning of Year | 168,939 | 991,286 | (409) | 1,160,634 | 846,300 | 846,300 | 314,334 |
| Balances, End of Year | \$ 329,969 | \$ 795,780 | \$ (2,342) | \$ 1,128,091 | \$ 864,722 | \$ 864,722 | \$ 263,369 |

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO OTHER INFORMATION
BUDGETARY REPORTING
JUNE 30, 2013**

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except 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 \$150,000 and budgeted disbursements by \$150,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2013, disbursements exceeded the amounts budgeted in the general government and business type activities functions.

**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, 2013**

| | Special Revenue ----- | | |
|----------------------------------|---------------------------------|--------------------------|----------------|
| | Special Assessments ----- | Debt Service ----- | Total ----- |
| Receipts: | | | |
| Special assessments | \$ 271 | \$ --- | \$ 271 |
| Disbursements: | | | |
| Debt service | --- | 21,633 | 21,633 |
| | ----- | ----- | ----- |
| Change in Cash Balances | \$ 271 | \$ (21,633) | \$ (21,362) |
| Cash Balances Beginning of Year | (654) | (108,140) | (108,794) |
| | ----- | ----- | ----- |
| Cash Balances End of Year | \$ (383) | \$ (129,773) | \$ (130,156) |
| | ===== | ===== | ===== |
| Cash Basis Fund Balances: | | | |
| Unassigned | \$ (383) | \$ (129,773) | \$ (130,156) |
| | ===== | ===== | ===== |

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, 2013**

| | Sewer | Customer Deposits | Total |
|---|-------------|----------------------|-------------|
| | ----- | ----- | ----- |
| Operating Receipts: | | | |
| Charges for service | \$ 192,339 | \$ 3,836 | \$ 196,175 |
| | ----- | ----- | ----- |
| Operating Disbursements: | | | |
| Salaries and wages | \$ 29,896 | \$ --- | \$ 29,896 |
| Employee benefits and costs | 15,923 | --- | 15,923 |
| Staff development | 1,216 | --- | 1,216 |
| Repairs, maintenance and utilities | 20,655 | --- | 20,655 |
| Contractual services | 13,000 | 4,225 | 17,225 |
| Commodities | 9,547 | --- | 9,547 |
| Capital outlay | 15,756 | --- | 15,756 |
| | ----- | ----- | ----- |
| Total Operating Disbursements | \$ 105,993 | \$ 4,225 | \$ 110,218 |
| | ----- | ----- | ----- |
| Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements | \$ 86,346 | \$ (389) | \$ 85,957 |
| | ----- | ----- | ----- |
| Non-Operating Receipts (Disbursements): | | | |
| Interest or investments | \$ 38 | \$ 15 | \$ 53 |
| Miscellaneous | 585 | --- | 585 |
| Debt service | (24,838) | --- | (24,838) |
| | ----- | ----- | ----- |
| Net Non-Operating Receipts (Disbursements) | \$ (24,215) | \$ 15 | \$ (24,200) |
| | ----- | ----- | ----- |
| Change in Cash Balances | \$ 62,131 | \$ (374) | \$ 61,757 |
| Cash Balances Beginning of Year | (18,081) | 15,751 | (2,330) |
| | ----- | ----- | ----- |
| Cash Balances End of Year | \$ 44,050 | \$ 15,377 | \$ 59,427 |
| | ===== | ===== | ===== |
| Cash Basis Fund Balances: | | | |
| Unrestricted | \$ 44,050 | \$ 15,377 | \$ 59,427 |
| | ===== | ===== | ===== |

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, 2013

| | Shed Reserve | Insurance Reserve | Total |
|------------------------------------|-----------------|----------------------|------------|
| | ----- | ----- | ----- |
| Operating Receipts: | | | |
| Charges for services | \$ --- | \$ --- | \$ --- |
| | ----- | ----- | ----- |
| Operating Disbursements: | | | |
| Repairs, maintenance and utilities | \$ 590 | \$ --- | \$ 590 |
| Commodities | 1,343 | --- | 1,343 |
| | ----- | ----- | ----- |
| Total Operating Disbursements | \$ 1,933 | \$ --- | \$ 1,933 |
| | ----- | ----- | ----- |
| Change in Cash Balances | \$ (1,933) | \$ --- | \$ (1,933) |
| | ----- | ----- | ----- |
| Cash Balances Beginning of Year | (5,931) | 5,522 | (409) |
| | ----- | ----- | ----- |
| Cash Balances End of Year | \$ (7,864) | \$ 5,522 | \$ (2,342) |
| | ===== | ===== | ===== |
| Cash Basis Fund Balances: | | | |
| Unrestricted (deficit) | \$ (7,864) | \$ 5,522 | \$ (2,342) |
| | ===== | ===== | ===== |

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE "4"

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2013

| 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 Notes: | | | | | | | | | |
| Water | October 14, 2010 | 4.00% | \$ 375,000 | \$ 307,000 | \$ --- | \$ 33,000 | \$ 274,000 | \$ 12,330 | \$ --- |
| Electric | June 13, 2012 | 3.15% | 600,000 | 600,000 | --- | 21,772 | 578,228 | 18,228 | --- |
| | | | \$ 907,000 | \$ --- | --- | \$ 54,772 | \$ 852,228 | \$ 30,558 | \$ --- |
| General Obligation Notes: | | | | | | | | | |
| Fire truck | December 13, 2002 | 4.00% | \$ 106,000 | \$ 10,600 | \$ --- | \$ 10,600 | \$ --- | \$ 440 | \$ --- |
| Fire truck | August 26, 2008 | 4.30% | 109,000 | 85,667 | --- | 6,226 | 79,441 | 3,612 | --- |
| Street lighting | April 8, 2013 | 0.00% | 45,317 | --- | 45,317 | 755 | 44,562 | --- | --- |
| Total | | | \$ 96,267 | \$ 45,317 | --- | \$ 17,581 | \$ 124,003 | \$ 4,052 | \$ --- |
| Other Obligation: | | | | | | | | | |
| Sewer Fund - Interfund Loan | August 27, 2007 | 3.90-4.30% | \$ 210,000 | \$ 115,000 | \$ --- | \$ 20,000 | \$ 95,000 | \$ 4,838 | \$ --- |

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2013**

Revenue Notes

| Year Ending June 30 | Water | | Electric | | Total |
|------------------------|-------------------------|------------|----------------------|------------|------------|
| | Issued October 14, 2010 | | Issued June 13, 2012 | | |
| | Interest Rates | Amount | Interest Rates | Amount | |
| 2014 | 4.00% | \$ 35,000 | 3.15% | \$ 58,228 | \$ 93,228 |
| 2015 | 4.00% | 36,000 | 3.15% | 40,000 | 76,000 |
| 2016 | 4.00% | 37,000 | 3.15% | 40,000 | 77,000 |
| 2017 | 4.00% | 39,000 | 3.15% | 40,000 | 79,000 |
| 2018 | 4.00% | 41,000 | 3.15% | 40,000 | 81,000 |
| 2019 | 4.00% | 42,000 | 3.15% | 40,000 | 82,000 |
| 2020 | 4.00% | 44,000 | 3.15% | 40,000 | 84,000 |
| 2021 | | --- | 3.15% | 40,000 | 40,000 |
| 2022 | | --- | 3.15% | 40,000 | 40,000 |
| 2023 | | --- | 3.15% | 40,000 | 40,000 |
| 2024 | | --- | 3.15% | 40,000 | 40,000 |
| 2025 | | --- | 3.15% | 40,000 | 40,000 |
| 2026 | | --- | 3.15% | 40,000 | 40,000 |
| 2027 | | --- | 3.15% | 40,000 | 40,000 |
| Total | | \$ 274,000 | | \$ 578,228 | \$ 852,228 |

General Obligation Notes

| Year Ending June 30 | Street Lighting | | Fire Truck | | Total | Other Obligation | |
|------------------------|----------------------|-----------|------------------------|-----------|------------|-------------------|-----------|
| | Issued April 8, 2013 | | Issued August 26, 2008 | | | Sewer | |
| | Interest Rates | Amount | Interest Rates | Amount | | Interest Rates | Amount |
| 2014 | 0.00% | \$ 4,532 | 4.30% | \$ 6,495 | \$ 11,027 | 4.15% | \$ 20,000 |
| 2015 | 0.00% | 4,532 | 4.30% | 6,778 | 11,310 | 4.20% | 25,000 |
| 2016 | 0.00% | 4,532 | 4.30% | 7,073 | 11,605 | 4.25% | 25,000 |
| 2017 | 0.00% | 4,532 | 4.30% | 7,380 | 11,912 | 4.30% | 25,000 |
| 2018 | 0.00% | 4,532 | 4.30% | 7,701 | 12,233 | | --- |
| 2019 | 0.00% | 4,532 | 4.30% | 8,036 | 12,568 | | --- |
| 2020 | 0.00% | 4,532 | 4.30% | 8,385 | 12,917 | | --- |
| 2021 | 0.00% | 4,532 | 4.30% | 8,749 | 13,281 | | --- |
| 2022 | 0.00% | 4,532 | 4.30% | 9,129 | 13,661 | | --- |
| 2023 | 0.00% | 3,774 | 4.30% | 9,715 | 13,489 | | --- |
| Total | | \$ 44,562 | | \$ 79,441 | \$ 124,003 | | \$ 95,000 |

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

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

| | 2013 | 2012 | 2011 | 2010 | 2009 | 2008 | 2007 | 2006 | 2005 | 2004 |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Receipts: | | | | | | | | | | |
| Property tax | \$ 227,268 | \$ 216,937 | \$ 209,685 | \$ 206,282 | \$ 174,342 | \$ 147,711 | \$ 146,562 | \$ 136,435 | \$ 134,029 | \$ 137,691 |
| Other city tax | 82,236 | 82,026 | 67,223 | 66,672 | 66,509 | 65,914 | 65,542 | 56,045 | 55,086 | 60,174 |
| Licenses and permits | 2,775 | 3,165 | 8,400 | 7,022 | 7,069 | 7,007 | 6,060 | 10,708 | 2,710 | 4,421 |
| Use of money and property | 5,187 | 5,194 | 4,378 | 3,593 | 3,228 | 5,736 | 13,943 | 20,762 | 11,153 | 29,453 |
| Intergovernmental | 163,185 | 150,297 | 265,516 | 313,593 | 131,656 | 130,550 | 122,601 | 121,067 | 120,903 | 128,064 |
| Charges for service | 34,592 | 34,223 | 34,101 | 35,057 | 32,760 | 32,708 | 37,267 | 26,154 | 25,927 | 29,365 |
| Special assessments | 271 | 283 | 432 | 573 | 436 | 809 | 23,799 | 421 | 1,353 | 5,974 |
| Miscellaneous | 31,859 | 34,075 | 16,818 | 14,650 | 20,552 | 43,847 | 30,008 | 35,102 | 29,722 | 23,005 |
| | <u>\$ 547,373</u> | <u>\$ 526,200</u> | <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> |
| Disbursements: | | | | | | | | | | |
| Operating: | | | | | | | | | | |
| Public safety | \$ 222,535 | \$ 212,913 | \$ 256,868 | \$ 288,346 | \$ 337,198 | \$ 226,036 | \$ 185,318 | \$ 171,555 | \$ 143,485 | \$ 138,002 |
| Public works | 120,941 | 119,556 | 129,810 | 84,611 | 118,477 | 190,783 | 76,383 | 93,386 | 144,658 | 94,064 |
| Health and social services | --- | --- | --- | --- | --- | --- | --- | 368 | 550 | 525 |
| Culture and recreation | 100,641 | 91,577 | 142,885 | 170,594 | 96,346 | 106,851 | 145,582 | 97,272 | 107,733 | 89,902 |
| Community and economic development | 9,316 | 7,417 | 15,183 | 14,002 | 6,926 | 7,579 | 14,639 | 10,816 | 18,489 | 22,359 |
| General government | 76,594 | 65,583 | 61,336 | 57,877 | 59,195 | 58,306 | 54,478 | 51,821 | 52,559 | 57,024 |
| Debt service | 21,633 | 21,303 | 21,710 | 22,130 | 22,554 | 13,136 | 13,567 | 14,003 | 14,412 | 16,819 |
| Capital projects | --- | --- | --- | --- | --- | --- | 457,744 | --- | --- | --- |
| Total | <u>\$ 551,660</u> | <u>\$ 518,349</u> | <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> |

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
S.H. ROBERTS, CPA
J.L. WOOLF, 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 in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. the financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2013, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated January 16, 2014. Our report expressed unmodified opinions on the financial statements of the various opinion units of the primary government which were prepared on the basis of cash receipts and disbursements and an adverse opinion on the discretely presented component unit due to the omission of the financial data for the City's legally separate component unit. Our report included a disclaimer of opinion on the other information.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City of Preston's internal control over financial reporting to determine the audit procedures appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Preston's internal control. Accordingly, we do not express an opinion on the effectiveness of the City of Preston's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings, we identified deficiencies in internal control that we consider to be material weaknesses and significant deficiencies.

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-13, I-B-13, and I-C-13 to be material weaknesses. Items I-A-13 and I-B-13 were noted in the prior year audit.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in Part I of the accompanying Schedule of Findings as items I-D-13, I-E-13, and I-F-13 to be significant deficiencies.

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, 2013 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.

We noted certain matters that we reported to management of the City of Preston in a separate letter dated January 16, 2014.

City of Preston's Responses to Findings

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

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the result of that testing and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with Government Auditing Standards in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City 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 16, 2014

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements:

INTERNAL CONTROL DEFICIENCIES:

I-A-13 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. The result is that intentional or unintentional errors or unauthorized transactions could occur and not be detected in a timely manner.

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-13 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. Misstatements in the financial statements could impair management and the City Council's ability to make informed decisions.

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.

I-C-13 Debt Payments - Payments on one of the City's debt obligations was not paid according to the terms of the loan agreement. The financial institution had issued an invoice to the City which did not include the interest due on the loan. This error was not noticed by the City. Failure to pay the proper amount could result in additional interest owed by the City.

Recommendation - We recommend the City prepare amortization schedules for all debt obligations. These schedules should be used to verify the proper amount is being paid on all City debts.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements: (Continued)

Response - We will consider this.

Conclusion - Response accepted.

- I-D-13 Document Board Approval of Wage Rates - Wages of two City employees were not formally approved by the Library Board or the City Council. Failure to document authorized wage rates could cause an over or under payment of wages.

Recommendation - We recommend that all wage rates be approved by the Library Board or City Council, as appropriate, and that the approval be documented in the minutes.

Response - We will implement these procedures.

Conclusion - Response accepted.

- I-E-13 Credit Cards - The City's resolution establishing guidelines for the use of municipal credit cards is not being followed by all City departments. The resolution requires municipal credit cards to be maintained by the Clerk's office under the control of the City Clerk and Deputy City Clerk. The resolution also states the municipal credit is to be used only for classes, conferences, training sessions, and travel expenses related to these items. We noted a credit card maintained by the City Library which is not kept in the Clerk's office. In addition, the credit card maintained by the Library is used for items not listed in the resolution. The result is that material disbursements could occur without proper authorization or oversight.

Recommendation - We recommend the credit card account maintained by the Library be closed as it is not in compliance with the City's resolution for municipal credit cards. At a minimum, control of the credit card should be transferred to the Clerk's office as required by the City's resolution to ensure that future use of the credit card is in accordance with the City's resolution.

Response - We will consider this.

Conclusion - Response accepted.

- I-F-13 Utility Rates - Incorrect billing rates were charged to several utility customers. This results in an incorrect amount of billings and receipts recorded in the City's records.

Recommendation - We recommend City personnel periodically review the billing rates assigned to utility customers for accuracy.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

Part I: Findings Related to the Financial Statements: (Continued)

Response - We will consider this.

Conclusion - Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting:

II-A-13 Certified Budget - Disbursements during the year ended June 30, 2013, exceeded the amounts budgeted in the 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-13 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-13 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-13 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-13 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.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

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

- II-F-13 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

The minutes did not show information sufficient to indicate the vote of each member present as required by Chapter 21.3 of the Code of Iowa. A list of claims allowed was not published within fifteen days of the City Council proceedings as required by Chapter 372.13(6) of the Code of Iowa.

Recommendation - The City should comply with Chapter 21 of the Code of Iowa and should publish a list of claims allowed as required.

Response - We will comply with the Code requirements and show information sufficient to indicate the vote of each Council member. We will publish a list of claims allowed as required.

Conclusion - Response accepted.

- II-G-13 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-13 Revenue Bonds and Notes - No instances of non-compliance with the revenue bond and note resolutions were noted.

- II-I-13 Payment of General Obligation Note - A general obligation debt was 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. Payment of the note should then be disbursed from the Debt Service Fund.

Response - We will transfer in the future as recommended.

Conclusion - Response accepted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2013**

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

II-J-13 Financial Condition - The Special Revenue, Special Assessments Fund had a deficit balance of \$383; the Debt Service Fund had a deficit balance of \$129,773; and the Internal Service, Shed Reserve Fund had a deficit balance of \$7,864 at June 30, 2013. 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
S.H. ROBERTS, CPA
J.L. WOOLF, CPA

To the Mayor, City Council, and Management
City of Preston
P.O. Box 37
Preston, IA 52069

In planning and performing our audit of 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 as of and for the year ended June 30, 2013, 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 audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

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

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency or 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 at items A, B, and C to be material weaknesses. Items A and B were noted in the prior year audit.

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. The result is that intentional or unintentional errors or unauthorized transactions could occur and not be detected in a timely manner.

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

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.

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. Misstatements in the financial statements could impair management and the City Council's ability to make informed decisions.

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

C. Debt Payments - Payments on one of the City's debt obligations was not paid according to the terms of the loan agreement. The financial institution had issued an invoice to the City which did not include the interest due on the loan. This error was not noticed by City personnel. Failure to pay the proper amount could result in additional interest owed by the City.

We recommend the City prepare amortization schedules for all debt obligations. These schedules should be used to verify the proper amount is being paid on all City debts.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the following deficiencies at items D, E, and F to be significant deficiencies.

D. Document Board Approval of Wage Rates - Wages of two City employees were not formally approved by the Library Board or the City Council. Failure to document authorized wage rates could cause an over or under payment of wages.

We recommend that all wage rates be approved by the Library Board or City Council, as appropriate, and that the approval be documented in the minutes.

E. Credit Cards - The City's resolution establishing guidelines for the use of municipal credit cards is not being followed by all City departments. The resolution requires municipal credit cards to be maintained by the Clerk's office under the control of the City Clerk and Deputy City Clerk. The resolution also states the municipal credit is to be used only for classes, conferences, training sessions, and travel expenses related to these items. We noted a credit card maintained by the City Library which is not kept in the Clerk's office. In addition, the credit card maintained by the Library is used for items not listed in the resolution. The result is that material disbursements could occur without proper authorization and oversight.

We recommend the credit card account maintained by the Library be closed as it is not in compliance with the City's resolution for municipal credit cards. At a minimum, control of the credit card should be transferred to the Clerk's office as required by the City's resolution to ensure that future use of the credit card is in accordance with the City's resolution.

F. Utility Rates - Incorrect billing rates were charged to several utility customers. This results in an incorrect amount of billings and receipts recorded in the City's records.

We recommend City personnel periodically review the billing rates assigned to utility customers for accuracy.

We also noted the following items that are not considered material weaknesses or significant deficiencies:

G. Community Foundation of Greater Dubuque - The City has funds with the Maquoketa Area Community Foundation which merged with the Community Foundation of Greater Dubuque during the year ended June 30, 2013. We noted there is no written agreement between the City and the Foundation to document the availability of funds, any restrictions on the use of the funds, etc. This could result in future disagreements over availability and use of funds.

To ensure a smooth transition from the Maquoketa Area Community Foundation to the Community Foundation of Greater Dubuque, we recommend the City obtain a written agreement with the Community Foundation of Greater Dubuque to document the City's relationship with the Foundation. The agreement should include items such as ownership of the funds, the City's ability to access the funds, and any restrictions on use of the funds. The City may want to consult with its attorney in obtaining this agreement.

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 16, 2014