

**CITY OF PRESTON
PRESTON, IOWA**

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

SCHEDULE OF FINDINGS

JUNE 30, 2007

**CITY OF PRESTON
PRESTON, IOWA**

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**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Steve Ritenour	Mayor	January 2008
Richard Rossmann	Mayor Pro Tem/Council Member	January 2008
Ken Larson	Council Member	January 2008
Carol Milder	Council Member	January 2010
Dave Jargo	Council Member	January 2010
Curtis Kilburg	Council Member	January 2010
Brenda Tebbe	City Clerk/Treasurer	Indefinite
Glenn Bartelt	City Attorney	Indefinite

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

CERTIFIED PUBLIC ACCOUNTANTS

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

INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2007, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Preston's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

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, 2007, 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.

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In accordance with Government Auditing Standards, we have also issued our report dated January 8, 2008, 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 compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's 2007 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 two years ended June 30, 2006 (which are not presented herein) and expressed unqualified opinions on those financial statements which were prepared in conformity with an other comprehensive basis of accounting. The 2007, 2006, and 2005 other supplementary information included in Schedule 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the 2007, 2006, and 2005 basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements for the three years ended June 30, 2007 taken as a whole.

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

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

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

Dubuque, Iowa
January 8, 2008

**CITY OF PRESTON
PRESTON, IOWA**

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental activities decreased 2.5% or \$11,506 from fiscal 2006 to fiscal 2007. The receipts included \$146,562 in property tax, \$65,542 in local option tax, \$79,094 in road use tax funds, and \$43,507 in other intergovernmental revenue.
- Disbursements increased 32.3% or \$699,053 in fiscal 2007 from fiscal 2006. Water disbursements decreased \$50,775 while culture and recreation, capital projects, sewer, and electric increased \$48,310, \$457,744, \$222,215, and \$52,100, respectively.
- The City's total cash basis net assets decreased 53.1% or \$678,613 from June 30, 2006 to June 30, 2007. Of this amount, the assets of the governmental activities decreased \$493,326. The assets of the business type activities decreased by \$185,287.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

Other Supplementary Information provides detailed information about the nonmajor governmental funds, proprietary funds, and internal service funds.

Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

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

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

- Governmental activities include public safety, public works, health and social services, culture and recreation, community and economic development, general government and debt service. Property tax and payment in lieu of taxes finance most of these activities.
- Business type activities of the City include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

- 1) Governmental funds account for most of the City's basic services. They focus on how money flows into and out of the funds and the balances at year-end that are available for spending. The governmental funds include: 1) the General Fund; 2) the Special Revenue Funds, such as Road Use Tax and 3) the Debt Service Fund. The governmental fund financial statements provide a detailed, short-term view of the City's general government operations and the basic services it provides. Governmental fund information helps you determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$544,855 to \$51,529. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities

	Year Ended June 30,	
	2007	2006
Receipts and Transfers:		
Program receipts:		
Charges for service	\$ 66,370	\$ 36,712
Operating grants and contributions	121,026	129,567
Capital grants and contributions	25,561	16,707
General receipts:		
Property tax	146,562	136,435
Local option sales tax	65,542	56,045
Utility franchise tax	3,600	8,248
Unrestricted investment earnings	11,893	18,315
Miscellaneous	5,228	4,665
Sale of capital assets	9,325	59,919
Transfers, net	---	63,990
	-----	-----
Total Receipts and Transfers	\$ 455,107	\$ 530,603
	-----	-----
Disbursements:		
Public safety	\$ 185,318	\$ 171,555
Public works	77,105	93,292
Health and social services	---	368
Culture and recreation	145,582	97,272
Community and economic development	14,639	10,816
General government	54,478	51,821
Debt service	13,567	14,003
Capital projects	457,744	---
	-----	-----
Total Disbursements	\$ 948,433	\$ 439,127
	-----	-----
Increase (Decrease) in Cash Basis Net Assets	\$ (493,326)	\$ 91,476
Cash Basis Net Assets Beginning of Year	544,855	453,379
	-----	-----
Cash Basis Net Assets End of Year	\$ 51,529	\$ 544,855
	=====	=====

Total receipts for the City's governmental activities decreased by 14.2% or \$75,496. The total cost of all programs and services increased by \$509,306 or 116.0%, with no programs removed this year. This increase is due to a major street construction project. Monies were taken from the Road Use Tax Fund.

The cost of all governmental activities this year was \$948,433 compared to \$439,127 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$735,476 because some of the cost was paid by those directly benefited from the programs (\$66,370) or by other governments and organizations that subsidized certain programs with grants and contributions (\$146,587). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for services increased from \$182,986 in fiscal year 2006 to \$212,957 in fiscal year 2007. The City paid for the remaining "public benefit" portion of governmental activities with \$735,476 in tax (some of which could only be used for certain programs) and with other receipts, such as interest and general entitlements.

Changes in Cash Basis Net Assets of Business Type Activities

	Year Ended June 30,	
	2007	2006
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 98,962	\$ 98,625
Electric	749,243	673,511
Gas	570,283	583,851
Sewer	141,693	141,014
Garbage	109,763	97,392
Customer deposits	4,285	4,269
General Receipts:		
Unrestricted interest on investments	36,458	31,187
Miscellaneous	20,959	31,297
Transfers, net	---	(63,990)
	\$1,731,646	\$1,597,156
Disbursements:		
Water	\$ 94,000	\$ 144,775
Electric	781,525	729,425
Gas	547,012	585,476
Sewer	376,874	154,659
Garbage	114,713	107,428
Customer deposits	2,809	5,423
	\$1,916,933	\$1,727,186
Increase (Decrease) in Cash Basis Net Assets	\$ (185,287)	\$ (130,030)
Cash Basis Net Assets Beginning of Year	732,283	862,313
Cash Basis Net Assets End of Year	\$ 546,996	\$ 732,283

Total business type activities disbursements for the fiscal year were \$1,916,933 compared to \$1,727,186 last year. The increase in electric was due primarily to a power cost adjustment that was incurred by the city and passed on to the customer. The decrease in water was due to the water tower project in the previous year. Sewer disbursements increased because of the on going repairs to the lagoon. Sewer rates need to be adjusted accordingly. Gas disbursements decreased due to the purchase of a vehicle for the gas department in the previous year.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$46,586, a decrease of \$492,604 below last year's total. The following is the reason for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance decreased from \$104,315 to \$(16,269). The decrease of \$120,584 is due primarily to unexpected snow expenses, the purchase of a new police car, and the construction of the skateboard park.
- The Library Foundation Fund cash balance increased \$1,851 due to interest and donations.
- The Capital Projects Fund cash balance did not change significantly during fiscal year 2007.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Electric Fund cash balance did not change significantly during fiscal year 2007.
- The Gas Fund cash balance increased \$46,612 due primarily to the cost of natural gas. The cost of natural gas was higher in the previous fiscal year than this fiscal year.
- The Sewer Fund cash balance decreased \$233,797 due primarily to the on going repairs to the lagoon. Rates will be adjusted accordingly.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 28, 2007, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs. The City had anticipated significant disbursements in the Community and Economic Development function. However, these projects were not completed because the City did not receive the grant monies needed to finance them.

DEBT ADMINISTRATION

At June 30, 2007, the City had \$672,916 in bonds and other long-term debt, compared to \$806,088 last year, as shown below.

	Outstanding Debt at Year End	
	June 30,	
	2007	2006
General Obligation Note	\$ 63,600	\$ 74,200
Revenue Bonds	212,000	255,000
Revenue Note	240,000	315,000
Promissory Note	19,144	28,716
Total	\$ 534,744	\$ 672,916

Debt decreased as a result of principal payments made on existing debt. The City does not anticipate any new debt. The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$63,600 is significantly below its constitutional debt limit of \$1.9 million.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGETS AND RATES

Numerous issues were taken into account when adopting the budget for fiscal year 2008. Amount available for appropriation in the operating budget will be \$2,395,636 a decrease of 25% from the final 2007 budget. Property taxes are expected to stay the same with the exception of the assessment. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise. The City has included one major project for the 2008 budget.

If these estimates are realized, the City's budgeted cash balance is expected to remain relatively unchanged by the close of 2008.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers, and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Brenda Tebbe, City Clerk/Treasurer, P.O. Box 37, Preston, Iowa 52069.

**BASIC
FINANCIAL
STATEMENTS**

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

Functions/Programs:	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
	Disbursements	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
Governmental Activities:							
Public safety	\$ 185,318	\$ 29,422	\$ 24,610	\$ 4,455	\$ (126,831)	\$ ---	\$ (126,831)
Public works	77,105	253	79,094	---	2,242	---	2,242
Culture and recreation	145,582	8,639	17,322	21,106	(98,515)	---	(98,515)
Community and economic development	14,639	---	---	---	(14,639)	---	(14,639)
General government	54,478	4,510	---	---	(49,968)	---	(49,968)
Debt service	13,567	---	---	---	(13,567)	---	(13,567)
Capital projects	457,744	23,546	---	---	(434,198)	---	(434,198)
Total Governmental Activities	\$ 948,433	\$ 66,370	\$ 121,026	\$ 25,561	\$ (735,476)	\$ ---	\$ (735,476)
Business Type Activities:							
Water	\$ 94,000	\$ 98,962	\$ ---	\$ ---	\$ ---	\$ 4,962	\$ 4,962
Electric	781,525	749,243	---	---	---	(32,282)	(32,282)
Gas	547,012	570,283	---	---	---	23,271	23,271
Sewer	376,874	141,693	---	---	---	(235,181)	(235,181)
Garbage	114,713	109,763	---	---	---	(4,950)	(4,950)
Customer deposits	2,809	4,285	---	---	---	1,476	1,476
Total Business Type Activities	\$ 1,916,933	\$ 1,674,229	\$ ---	\$ ---	\$ ---	\$ (242,704)	\$ (242,704)
Total	\$ 2,865,366	\$ 1,740,599	\$ 121,026	\$ 25,561	\$ (735,476)	\$ (242,704)	\$ (978,180)

See notes to financial statements.

EXHIBIT "A" (continued)

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

	Program Receipts		Net (Disbursements) Receipts and Changes in Cash Basis Net Assets	
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Business Type Activities
	Disbursements		Governmental Activities	Total
General Receipts:				
Property tax levied for:				
General purposes			\$ 146,562	\$ 146,562
Other city tax			69,142	69,142
Unrestricted interest on investments			11,893	36,458
Miscellaneous			5,228	20,959
Sale of capital assets			9,325	9,325
Total General Receipts and Transfers			\$ 242,150	\$ 57,417
Change in Cash Basis Net Assets			\$ (493,326)	\$ (185,287)
Cash Basis Net Assets Beginning of Year			544,855	732,283
Cash Basis Net Assets End of Year			\$ 51,529	\$ 546,996
Cash Basis Net Assets:				
Restricted:				
Streets			\$ 14,533	\$ 14,533
Library			45,250	45,250
Debt service			(7,370)	(7,370)
Other purposes			---	150
Unrestricted			(884)	546,846
Total Cash Basis Net Assets			\$ 51,529	\$ 546,996

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, 2007**

	Special Revenue				Total
	General	Library Foundation	Capital Projects	Nonmajor	
Receipts:					
Property tax	\$ 146,562	\$ ---	\$ ---	\$ ---	\$ 146,562
Other city tax	65,542	---	---	---	65,542
Licenses and permits	6,060	---	---	---	6,060
Use of money and property	10,713	2,319	---	911	13,943
Intergovernmental	43,507	---	---	79,094	122,601
Charges for services	37,267	---	---	---	37,267
Special assessments	253	---	---	23,546	23,799
Miscellaneous	27,508	2,500	---	---	30,008
Total Receipts	\$ 337,412	\$ 4,819	\$ ---	\$ 103,551	\$ 445,782
Disbursements:					
Operating:					
Public safety	\$ 185,318	\$ ---	\$ ---	\$ ---	\$ 185,318
Public works	70,292	---	---	6,091	76,383
Culture and recreation	145,094	488	---	---	145,582
Community and economic development	14,639	---	---	---	14,639
General government	54,478	---	---	---	54,478
Debt service	---	---	---	13,567	13,567
Capital projects	---	---	457,744	---	457,744
Total Disbursements	\$ 469,821	\$ 488	\$ 457,744	\$ 19,658	\$ 947,711
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (132,409)	\$ 4,331	\$ (457,744)	\$ 83,893	\$ (501,929)
Other Financing Sources (Uses):					
Sale of capital assets	\$ 9,325	\$ ---	\$ ---	\$ ---	\$ 9,325
Transfers in	2,500	---	457,744	---	460,244
Transfers out	---	(2,500)	---	(457,744)	(460,244)
Total Other Financing Sources (Uses)	\$ 11,825	\$ (2,500)	\$ 457,744	\$ (457,744)	\$ 9,325
Net Change in Cash Balances	\$ (120,584)	\$ 1,831	\$ ---	\$ (373,851)	\$ (492,604)
Cash Balances Beginning of Year	104,315	43,419	---	391,456	539,190
Cash Balances End of Year	\$ (16,269)	\$ 45,250	\$ ---	\$ 17,605	\$ 46,586

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, 2007**

	Special Revenue				Total
	General	Library Foundation	Capital Projects	Nonmajor	
Cash Basis Fund Balances:					
Reserved:					
Debt service	\$ ---	\$ ---	\$ ---	\$ (7,370)	\$ (7,370)
Unreserved:					
Designated, special revenue funds	---	---	---	13,082	13,082
Undesignated:					
General fund	(16,269)	---	---	---	(16,269)
Special revenue funds	---	45,250	---	11,893	57,143
Total Cash Basis Fund Balances	\$ (16,269)	\$ 45,250	\$ ---	\$ 17,605	\$ 46,586

See notes to financial statements.

**CITY OF PRESTON
PRESTON, IOWA**

**RECONCILIATION OF THE STATEMENT
OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES TO THE STATEMENT OF ACTIVITIES
AND NET ASSETS - GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

Total governmental funds cash balances	\$	46,586
---	----	--------

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

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

4,943

Cash basis net assets of governmental activities	\$	51,529
---	----	--------

Net change in cash balances	\$	(492,604)
------------------------------------	----	-----------

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

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

(722)

Change in cash balance of governmental activities	\$	(493,326)
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**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, 2007**

Enterprise Funds

	Electric	Gas	Sewer	Nonmajor	Total	Internal Service Funds
Operating Receipts:						
Use of money and property	\$ 13,006	\$ 19,442	\$ ---	\$ 4,010	\$ 36,458	\$ ---
Charges for services	749,243	570,283	141,693	208,725	1,669,944	---
Total Operating Receipts	\$ 762,249	\$ 589,725	\$ 141,693	\$ 212,735	\$1,706,402	\$ ---
Operating Disbursements:						
Salaries and wages	\$ 70,213	\$ 35,800	\$ 30,420	\$ 64,053	\$ 200,486	\$ ---
Employee benefits and costs	45,565	24,898	16,256	42,775	129,494	---
Staff development	214	3,895	352	614	5,075	---
Repairs, maintenance, and utilities	10,107	1,674	4,422	9,280	25,483	1,381
Contractual services	437,663	469,542	60,349	78,179	1,045,733	---
Commodities	52,124	10,626	10,441	15,287	88,478	1,505
Capital outlay	65,390	---	204,035	613	270,038	---
Debt service	99,527	---	50,455	---	149,982	---
Total Operating Disbursements	\$ 780,803	\$ 546,435	\$ 376,730	\$ 210,801	\$1,914,769	\$ 2,886
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursement	\$ (18,554)	\$ 43,290	\$ (235,037)	\$ 1,934	\$ (208,367)	\$ (2,886)
Non-Operating Receipts:						
Miscellaneous	10,808	3,322	1,240	9,874	25,244	---
Net Change in Cash Balances	\$ (7,746)	\$ 46,612	\$ (233,797)	\$ 11,808	\$ (183,123)	\$ (2,886)
Cash Balances Beginning of Year	263,514	408,634	(17,632)	77,343	731,859	6,087
Cash Balances End of Year	\$ 255,768	\$ 455,246	\$ (251,429)	\$ 89,151	\$ 548,736	\$ 3,201
Cash Basis Fund Balances:						
Restricted:						
Debt service	\$ ---	\$ ---	\$ (251,429)	\$ ---	\$ (251,429)	\$ ---
Other purposes	150	---	---	---	150	---
Unrestricted	255,618	455,246	---	89,151	800,015	3,201
Total Cash Basis Fund Balances	\$ 255,768	\$ 455,246	\$ (251,429)	\$ 89,151	\$ 548,736	\$ 3,201

See notes to financial statements.

CITY OF PRESTON
PRESTON, IOWA

**RECONCILIATION OF THE STATEMENT OF CASH RECEIPTS,
DISBURSEMENTS, AND CHANGES IN CASH BALANCES
TO THE STATEMENT OF ACTIVITIES AND NET ASSETS -
PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

Total enterprise funds cash balances	\$ 548,736
---	-------------------

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

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

(1,740)

Cash basis net assets of business type activities	\$ 546,996 =====
--	----------------------------

Net change in cash balances

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

\$ (183,123)

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

(2,164)

Change in cash balance of business type activities	\$ (185,287) =====
---	------------------------------

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 1 - Summary of Significant Accounting Policies:

The City of Preston is a political subdivision of the State of Iowa located in Jackson County. It was first incorporated in 1890 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides, water, sewer, electric, gas, and garbage utilities for its citizens.

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 no component units which meet the Governmental Accounting Standards Board criteria.

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.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

B. Basis of Presentation

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

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

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

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

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

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

The City reports the following major governmental funds:

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

B. Basis of Presentation (Continued)

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

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

The City reports the following major proprietary funds:

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

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

The Sewer Fund accounts for the operation and maintenance of the City's sewer system.

The City also reports the following additional proprietary fund:

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

C. Measurement Focus and Basis of Accounting

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

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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

C. Measurement Focus and Basis of Accounting (Continued)

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

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2007, 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, 2007, the City had the following investments:

Type -----	Fair Value -----	Maturity -----
Maquoketa Area Foundation	\$ 45,250	N/A
	=====	

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

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 Maquoketa Area Foundation is unrated.

Note 3 - Bonds and Notes Payable:

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

Year Ending June 30,	General Obligation Note		Revenue Bonds		Revenue Note	
	Principal	Interest	Principal	Interest	Principal	Interest
2008	\$ 10,600	\$ 2,544	\$ 44,000	\$ 6,150	\$ 75,000	\$ 11,618
2009	10,600	2,120	50,000	4,815	80,000	8,130
2010	10,600	1,696	50,000	3,315	85,000	4,250
2011	10,600	1,272	51,000	1,800	---	---
2012	10,600	848	17,000	255	---	---
2013	10,600	424	---	---	---	---
Total	\$ 63,600	\$ 8,904	\$ 212,000	\$ 16,335	\$ 240,000	\$ 23,998

Year Ending June 30	Promissory Note		Total	
	Principal	Interest	Principal	Interest
2008	\$ 9,572	\$ -	\$ 139,172	\$ 20,312
2009	9,572	-	150,172	15,065
2010	---	-	145,600	9,261
2011	---	-	61,600	3,072
2012	---	-	27,600	1,103
2013	---	---	10,600	424
Total	\$ 19,144	\$ ---	\$ 534,744	\$ 49,237

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 3 - Bonds and Notes Payable: (Continued)

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

- (a) The bonds will only be redeemed from the future earnings of the Sewer Fund, and the bondholders hold a lien on the future earnings of the fund.
- (b) Establish a Sinking Fund and make a monthly cash transfer equal to 1/6 of the installment of interest coming due on the next interest payment date plus 1/12 of the installment of principal coming due on the bonds on the next succeeding principal payment date.

The City's Sewer Fund balance is insufficient to meet the Sinking Fund requirements.

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

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

The City is in compliance with the provisions noted above.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 4 - Pension and Retirement Benefits:

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% 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, 2007, 2006, and 2005 were \$22,663, \$21,356, and \$20,238, respectively, equal to the required contributions for each year.

Note 5 - 28E Agreement:

On July 26, 2004, the City entered into a 28E Agreement with the City of Miles to provide police services to the City of Miles.

On June 7, 2006, the City entered into a 28E Agreement with the City of Spragueville to provide police services to the City of Spragueville. The agreement was renewed on February 13, 2007.

Note 6 - 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. Sick leave and personal leave accumulates but is not payable upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned compensated absences payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
----- Vacation	\$ 11,149 =====

The liability has been computed based on rates of pay as of June 30, 2007.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 7 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2007, is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Library Foundation	\$ 2,500
Capital Projects	Special Revenue: Special Assessments Road Use Tax	26,186 431,558
		\$ 460,244

Transfers are used to (1) move resources from the fund that statute or budget requires to collect them to the fund that statute or budget requires to disburse them, (2) move receipts restricted to debt service from the funds collecting the receipts to the debt service fund as debt service payments become due, and (3) move "in lieu of tax" payments from the enterprise funds.

Note 8 - Risk Management:

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

Note 9 - Construction in Progress:

The City entered into construction and engineering contracts for the improvement of the waste water treatment facility in the amount of \$217,833. Change orders were executed in the amount of \$11,781. At June 30, 2007, \$211,220 of the contracts were completed. The remaining amounts will be paid as work on the project progresses.

Note 10 - General Fund Account Balances:

The account balances of the General Fund as of June 30, 2007, are as follows:

General	\$ (16,718)
Police capital account	449

Total General Fund Balance	\$ (16,269)

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2007**

Note 11 - Designation of Fund Balances:

	Special Revenue -----
Library purchases	\$ 10,236
Fire department purchases	2,846

	\$ 13,082
	=====

Note 12 - Deficit Fund Balance:

The General Fund, Special Assessment, and Debt Service Funds had deficit fund balances of \$16,269, \$2,640, and \$7,370, respectively, at June 30, 2007 as a result of disbursements in excess of receipts. The deficits will be eliminated by future receipts.

The Enterprise Fund, Sewer, had a deficit fund balance of \$251,429 at June 30, 2007. The deficit fund balance was the result of expenditures in excess of charges for service. The deficit will be eliminated by future charges for service.

Note 13 - Segment Information:

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

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

Operating receipts	\$ 141,693
Operating disbursements	(376,730)

Operating loss	\$ (235,037)
Nonoperating receipts	1,240

Net Change in Cash Balances	\$ (233,797)
Cash Balances Beginning of Year	(17,632)

Cash Deficit End of Year	\$ (251,429)
	=====
Cash Basis Fund Balances:	
Restricted for Debt Service	\$ (251,429)
	=====

**REQUIRED
SUPPLEMENTARY
INFORMATION**

CITY OF PRESTON
PRESTON, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 146,562	\$ ---	\$ ---	\$ 146,562	\$ 146,067	\$ 146,067	\$ 495
Other city tax	65,542	---	---	65,542	56,059	56,059	9,483
Licenses and permits	6,060	---	---	6,060	2,800	2,800	3,260
Use of money and property	13,943	36,458	---	50,401	12,000	12,000	38,401
Intergovernmental	122,601	---	---	122,601	293,000	293,000	(170,399)
Charges for services	37,267	1,669,944	---	1,707,211	1,764,400	2,184,400	(477,189)
Special assessments	23,799	---	---	23,799	500	500	23,299
Miscellaneous	30,008	25,244	---	55,252	45,000	104,000	(48,748)
Total Receipts	\$ 445,782	\$ 1,731,646	\$ ---	\$ 2,177,428	\$ 2,319,826	\$ 2,798,826	\$ (621,398)
Disbursements:							
Public safety	\$ 185,318	\$ ---	\$ ---	\$ 185,318	\$ 181,450	\$ 181,450	\$ (3,868)
Public works	76,383	---	---	76,383	66,500	66,500	(9,883)
Health and social services	---	---	---	---	750	750	750
Culture and recreation	145,582	---	---	145,582	92,225	92,225	(53,357)
Community and economic development	14,639	---	---	14,639	204,000	204,000	189,361
General government	54,478	---	---	54,478	63,100	63,100	8,622
Debt service	13,567	---	---	13,567	---	---	(13,567)
Capital projects	457,744	---	---	457,744	---	461,000	3,256
Business type activities	---	1,914,769	---	1,914,769	1,704,000	2,124,000	209,231
Non-program	---	2,886	2,886	---	---	---	---
Total Disbursements	\$ 947,711	\$ 1,917,655	\$ 2,886	\$ 2,862,480	\$ 2,312,025	\$ 3,193,025	\$ 330,545

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

BUDGETARY COMPARISON SCHEDULE OF RECEIPTS, DISBURSEMENTS AND
CHANGES IN BALANCES - BUDGET AND ACTUAL (CASH BASIS) -
ALL GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS
REQUIRED SUPPLEMENTARY INFORMATION
YEAR ENDED JUNE 30, 2007

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (501,929)	\$ (186,009)	\$ (2,886)	\$ (685,052)	\$ 7,801	\$ (394,199)	\$ (290,853)
Other Financing Sources (Uses), Net	9,325	---	---	9,325	---	402,000	(392,675)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ (492,604)	\$ (186,009)	\$ (2,886)	\$ (675,727)	\$ 7,801	\$ 7,801	\$ (683,528)
Balances, Beginning of Year	539,190	737,946	6,087	1,271,049	1,260,721	1,260,721	10,328
Balances, End of Year	\$ 46,586	\$ 551,937	\$ 3,201	\$ 595,322	\$ 1,268,522	\$ 1,268,522	\$ (673,200)

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
JUNE 30, 2007**

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

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

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$479,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service functions.

**OTHER
SUPPLEMENTARY
INFORMATION**

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

	Special Revenue					Total
	Road Use Tax	Library Trust	Fire Department Trust	Special Assessments	Debt Service	
Receipts:						
Use of money and property	\$ ---	\$ 443	\$ 225	\$ ---	\$ 243	\$ 911
Intergovernmental	79,094	---	---	---	---	79,094
Special assessments	---	---	---	23,546	---	23,546
Total Receipts	\$ 79,094	\$ 443	\$ 225	\$ 23,546	\$ 243	\$ 103,551
Disbursements:						
Operating:						
Public works	\$ 6,091	\$ ---	\$ ---	\$ ---	\$ ---	\$ 6,091
Debt service	---	---	---	---	13,567	13,567
Total Disbursements	\$ 6,091	\$ ---	\$ ---	\$ ---	\$ 13,567	\$ 19,658
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ 73,003	\$ 443	\$ 225	\$ 23,546	\$ (13,324)	\$ 83,893
Other Financing Sources (Uses):						
Transfers in	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---	\$ ---
Transfers out	(431,558)	---	---	(26,186)	---	(457,744)
Total Other Financing Sources (Uses)	\$ (431,558)	\$ ---	\$ ---	\$ (26,186)	\$ ---	\$ (457,744)
Net Change in Cash Balances	\$ (358,555)	\$ 443	\$ 225	\$ (2,640)	\$ (13,324)	\$ (373,851)
Cash Balances Beginning of Year	373,088	9,793	2,621	---	5,954	391,456
Cash Balances End of Year	\$ 14,533	\$ 10,236	\$ 2,846	\$ (2,640)	\$ (7,370)	\$ 17,605
Cash Basis Fund Balances:						
Reserved:						
Debt service	\$ ---	\$ ---	\$ ---	\$ ---	\$ (7,370)	\$ (7,370)
Unreserved:						
Designated	---	10,236	2,846	---	---	13,082
Undesignated	14,533	---	---	(2,640)	---	11,893
Total Cash Basis Fund Balances	\$ 14,533	\$ 10,236	\$ 2,846	\$ (2,640)	\$ (7,370)	\$ 17,605

See accompanying independent auditor's report.

**CITY OF PRESTON
PRESTON, IOWA**

**STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES
NONMAJOR PROPRIETARY FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007**

	Enterprise Funds			
	Water	Garbage	Customer Deposits	Total
Operating Receipts:				
Use of money and property	\$ 1,791	\$ 1,773	\$ 446	\$ 4,010
Charges for services	98,962	109,763	---	208,725
Total Operating Receipts	\$ 100,753	\$ 111,536	\$ 446	\$ 212,735
Operating Disbursements:				
Salaries and wages	\$ 33,881	\$ 30,172	\$ ---	\$ 64,053
Employee benefits and costs	17,567	25,208	---	42,775
Staff development	504	110	---	614
Repairs, maintenance and utilities	1,461	7,819	---	9,280
Contractual services	27,956	47,414	2,809	78,179
Commodities	11,874	3,413	---	15,287
Capital outlay	613	---	---	613
Total Operating Disbursements	\$ 93,856	\$ 114,136	\$ 2,809	\$ 210,801
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 6,897	\$ (2,600)	\$ (2,363)	\$ 1,934
Non-Operating Receipts:				
Miscellaneous	1,299	4,290	4,285	9,874
Net Change in Cash Balances	\$ 8,196	\$ 1,690	\$ 1,922	\$ 11,808
Cash Balances Beginning of Year	29,763	38,816	8,764	77,343
Cash Balances End of Year	\$ 37,959	\$ 40,506	\$ 10,686	\$ 89,151
Cash Basis Fund Balances:				
Unrestricted	\$ 37,959	\$ 40,506	\$ 10,686	\$ 89,151

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF CASH RECEIPTS, DISBURSEMENTS,
AND CHANGES IN CASH BALANCES - INTERNAL SERVICE FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2007

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Charges for service	\$ ---	\$ ---	\$ ---
	-----	-----	-----
Operating Disbursements:			
Repairs, maintenance and utilities	\$ 1,381	\$ ---	\$ 1,381
Commodities	1,505	---	1,505
	-----	-----	-----
Total Operating Disbursements	\$ 2,886	\$ ---	\$ 2,886
	-----	-----	-----
Net Change in Cash Balances	\$ (2,886)	\$ ---	\$ (2,886)
Cash Balances Beginning of Year	565	5,522	6,087
	-----	-----	-----
Cash Balances End of Year	\$ (2,321)	\$ 5,522	\$ 3,201
	=====	=====	=====
Cash Basis Fund Balances:			
Unreserved	\$ (2,321)	\$ 5,522	\$ 3,201
	=====	=====	=====

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE "4"

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2007

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 Bonds:									
Sewer	August 1, 1991	3.00%	\$ 490,000	\$ 165,000	\$ -	\$ 30,000	\$ 135,000	\$ 4,950	\$ -
Sewer	November 25, 1992	3.00%	225,000	90,000	-	13,000	77,000	2,505	-
Total				\$ 255,000	\$ -	\$ 43,000	\$ 212,000	\$ 7,455	\$ -
Revenue Note:									
Electric	June 1, 2002	4.45-5.00%	\$ 580,000	\$ 315,000	\$ -	\$ 75,000	\$ 240,000	\$ 14,955	\$ -
Promissory Note:									
Rural Economic Development	January 17, 2000	0%	\$ 95,720	\$ 28,716	\$ -	\$ 9,572	\$ 19,144	\$ -	\$ -
General Obligation Note:									
Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 74,200	\$ -	\$ 10,600	\$ 63,600	\$ 2,968	\$ -

See accompanying independent auditor's report.

SCHEDULE "5"

**CITY OF PRESTON
PRESTON, IOWA**

**BOND AND NOTE MATURITIES
JUNE 30, 2007**

Year Ending June 30	Revenue Bonds			Revenue Note			Promissory Note			General Obligation Note				
	Sewer	Sewer	Total	Electric	Rural Economic Dev.	Fire Truck	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Interest Rates	Amount	Amount	Amount
	Issued August 1, 1991	Issued November 25, 1992	Issued June 1, 2002	Issued January 17, 2000	Issued December 13, 2002									
2008	3.00%	3.00%	3.00%	4.65%	0%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	\$ 30,000	\$ 9,572	\$ 10,600
2009	3.00%	3.00%	3.00%	4.85%	0%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	35,000	9,572	10,600
2010	3.00%	3.00%	3.00%	5.00%	---	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	35,000	---	10,600
2011	3.00%	3.00%	3.00%	---	---	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	35,000	---	10,600
2012	---	---	---	---	---	---	---	---	---	---	---	---	---	10,600
2013	---	---	---	---	---	---	---	---	---	---	---	---	---	10,600
Total	\$ 135,000	\$ 77,000	\$ 212,000	\$ 240,000	\$ 19,144	\$ 63,600								

See accompanying independent auditor's report.

SCHEDULE "6"

CITY OF PRESTON
PRESTON, IOWA

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

	2007	2006	2005	2004	2003	2002
Receipts:						
Property tax	\$ 146,562	\$ 136,435	\$ 134,029	\$ 137,691	\$ 135,861	\$ 119,137
Other city tax	65,542	56,045	55,086	60,174	58,538	52,828
Licenses and permits	6,060	10,708	2,710	4,421	5,889	6,381
Use of money and property	13,943	20,762	11,153	29,453	134,037	75,997
Intergovernmental	122,601	121,067	120,903	128,064	155,120	273,799
Charges for service	37,267	26,154	25,927	29,365	27,081	27,895
Special assessments	23,799	421	1,353	5,974	1,700	1,384
Miscellaneous	30,008	35,102	29,722	23,005	7,152	26,473
	<u>\$ 445,782</u>	<u>\$ 406,694</u>	<u>\$ 380,883</u>	<u>\$ 418,147</u>	<u>\$ 525,378</u>	<u>\$ 583,894</u>
Disbursements:						
Operating:						
Public safety	\$ 185,318	\$ 171,555	\$ 143,485	\$ 138,002	\$ 220,395	\$ 215,714
Public works	76,383	93,386	144,658	94,064	78,665	82,190
Health and social services	---	368	550	525	918	2,070
Culture and recreation	145,582	97,272	107,733	89,902	88,753	83,876
Community and economic development	14,639	10,816	18,489	22,359	31,711	105,761
General government	54,478	51,821	52,559	57,024	55,317	58,487
Debt service	13,567	14,003	14,412	16,819	---	---
Capital projects	457,744	---	---	---	---	---
Total	<u>\$ 947,711</u>	<u>\$ 439,221</u>	<u>\$ 481,886</u>	<u>\$ 418,695</u>	<u>\$ 475,759</u>	<u>\$ 548,098</u>

See accompanying independent auditor's report.

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

CERTIFIED PUBLIC ACCOUNTANTS

G.L. HARDIN, CPA
W.H. LEGLAR, CPA
S.J. DOMEYER, CPA
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M.P. RUGGEBERG, CPA
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E.A. SCHILLING, CPA

INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, 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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 8, 2008. Our report expressed unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

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

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

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A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Preston's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Preston's financial statements that is more than inconsequential will not be prevented or detected by the City of Preston's internal control. We consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Preston's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item I-A-07 is a material weakness.

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 and 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, 2007, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

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

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

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

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

Dubuque, Iowa
January 8, 2008

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-07 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

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

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

Conclusion - Response accepted.

I-B-07 Utility Accounts Receivable - The City provides its utility customers with the option to pay a "budget" amount each month for utility services with the amount adjusted on an annual basis to reflect actual usage. We noted several customers whose monthly "budget" payments were not sufficient resulting in accounts receivable that are more than 120 days old.

Recommendation - The City needs to review and adjust the "budget" payment for all customers on at least an annual basis to ensure that the amount is sufficient to cover actual usage over the course of a year.

Response - We will review "budget" payments and adjust as necessary.

Conclusion - Response accepted.

I-C-07 Cash on Hand - The City received heat assistance funding for some of its utility customers. These monies are not deposited upon receipt into the City's bank account. Rather, the funds are deposited as applied to customer accounts.

Recommendation - All monies should be deposited upon receipt to ensure complete and proper recording of all monies.

Response - We will deposit all monies as received.

Conclusion - Response accepted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

Part II: Other Findings Related to Statutory Reporting:

II-A-07 Certified Budget - Disbursements during the year ended June 30, 2007, exceeded the amounts budgeted in the public safety, public works, culture and recreation, and debt service 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. In addition, several amounts in the Total Budget as certified or last amended in the City Budget Amendment and Certification Resolution did not agree to the Certified Budget.

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. The City Budget Amendment and Certification Resolution should be reviewed for accuracy prior to approval.

Response - The budget will be amended in the future, if applicable. The City Budget Amendment Certification Resolution will be reviewed.

Conclusion - Response accepted.

II-B-07 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-07 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

II-D-07 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-07 Bond Coverage - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

II-F-07 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-07 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.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2007**

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

II-H-07 Revenue Bonds and Notes - The City has established the appropriate accounts required by the sewer revenue bond resolution and the electric revenue note resolution. During the year, the City made the required transfers to the accounts. Even though the required transfers were made for the sewer revenue accounts, the fund balance was still insufficient to meet the sinking and reserve account requirements of the sewer revenue resolutions, so the City has a net earnings violation.

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

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

Conclusion - Response accepted.

II-I-07 Financial Condition - The General Fund had a deficit balance of \$16,269; the Debt Service Fund had a deficit balance of \$7,370; and the Enterprise, Sewer Fund had a deficit balance of \$251,429 at June 30, 2007.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position.

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.