

**CITY OF PRESTON
PRESTON, IOWA**

**INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND
SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2008**

**CITY OF PRESTON
PRESTON, IOWA**

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**CITY OF PRESTON
PRESTON, IOWA**

OFFICIALS

Name	Title	Term Expires

(Before January 2008)		
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
(After January 2008)		
Steve Ritenour	Mayor	January 2012
Richard Rossmann	Mayor Pro Tem/Council Member	January 2012
Ken Larson	Council Member	January 2012
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 City of Preston as of and for the year ended June 30, 2008, which collectively comprise the basic financial statements of the City's primary government as listed in the table of contents. These financial statements are the responsibility of the City of Preston's management. Our responsibility is to express opinions on these financial statements based on our audit.

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

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

The financial statements do not include financial data for the City's legally separate component units. Accounting principles generally accepted in the United States of America require the financial data for those component units 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 units. The City has not issued such reporting entity financial statements. The assets, liabilities, net assets, revenues, and expenses of the legally separate component units are unknown, thus the amount by which this departure would affect the financial statements taken as a whole is not reasonably determinable.

In our opinion, because of the omission of the discretely presented component units, as discussed above, the financial statements referred to above do not present fairly, in conformity with the basis of accounting described in Note 1, the financial position of the aggregate discretely presented component units of the City of Preston, as of June 30, 2008, or the changes in cash basis financial position thereof for the year then ended.

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Furthermore, in our opinion, the respective financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Preston as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

In accordance with Government Auditing Standards, we have also issued our report dated January 13, 2009, on our consideration of the City's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and important for assessing the results of our audit.

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

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Preston's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2007 (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. The other supplementary information included in Schedule 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the of the 2008, 2007, 2006, and 2005 basic financial statements and, in our opinion, if fairly stated in all material respects in relation to the basic financial statements for the four years ended June 30, 2008 taken as a whole.

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

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

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

Dubuque, Iowa
January 13, 2009

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, 2008. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2008 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities decreased 4.6% or \$20,825 from fiscal 2007 to fiscal 2008. The receipts included \$147,711 in property tax, \$70,336 in local option tax, \$81,303 in road use tax funds, and \$49,247 in other intergovernmental revenue.
- Disbursements decreased 11.3% or \$323,964 in fiscal 2008 from fiscal 2007. Culture and recreation, capital projects, and sewer disbursements decreased \$38,731, \$457,744, and \$196,757, respectively, while public safety, public works, water, electric, and gas disbursements increased \$40,718, \$114,308, \$31,176, \$118,269, and \$64,624, respectively.
- The City's total cash basis net assets decreased 24.5% or \$146,495 from June 30, 2007 to June 30, 2008. Of this amount, the assets of the governmental activities decreased \$99,039. The assets of the business type activities decreased by \$47,456.

USING THIS ANNUAL REPORT

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

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

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

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

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

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

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

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, 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 payments in lieu of taxes finance most of these activities.
- Business type activities include water, sewer, electric, gas, garbage, and customer deposits. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

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

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities decreased from a year ago, from \$51,529 to \$(47,510). 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service	\$ 38,459	\$ 66,370
Operating grants and contributions	129,904	121,026
Capital grants and contributions	20,477	25,561
General receipts:		
Property tax	147,711	146,562
Local option sales tax	70,336	65,542
Unrestricted investment earnings	3,667	11,893
Sale of capital assets	---	9,325
Other general receipts	23,728	8,828
Total receipts	\$ 434,282	\$ 455,107
Disbursements:		
Public safety	\$ 226,036	\$ 185,318
Public works	191,413	77,105
Culture and recreation	106,851	145,582
Community and economic development	7,579	14,639
General government	58,306	54,478
Debt service	13,136	13,567
Capital projects	---	457,744
Total disbursements	\$ 603,321	\$ 948,433
Change in cash basis net assets before transfers	\$ (169,039)	\$ (493,326)
Transfers, net	70,000	---
Change in cash basis net assets	\$ (99,039)	\$ (493,326)
Cash basis net assets beginning of year	51,529	544,855
Cash basis net assets end of year	\$ (47,510)	\$ 51,529

Total receipts for the City's governmental activities decreased by 4.6% or \$20,825. The total cost of all programs and services decreased by \$345,112 or 36.4%, with no programs removed this year. This decrease is due to several unexpected expenses such as additional snow removal, police protection, and library expenses. The city will increase their contribution in lieu of taxes to complete any projects/expenses that are expected to arise.

The cost of all governmental activities this year was \$603,321 compared to \$948,433 last year. As shown in the Statement of Activities and Net Assets, the amount taxpayers ultimately financed for these activities was \$414,481 because some of the cost was paid by those directly benefited from the programs (\$38,459) or by other governments and organizations that

subsidized certain programs with grants and contributions (\$150,381). Overall, the City's governmental activities receipts, including intergovernmental aid and fees for services decreased from \$212,957 in fiscal year 2007 to \$188,840 in fiscal year 2008. The City paid for the remaining "public benefit" portion of governmental activities with \$414,481 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,	
	2008	2007
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 150,511	\$ 98,962
Electric	829,185	749,243
Gas	596,942	570,283
Sewer	186,996	141,693
Garbage	132,443	109,763
Customer deposits	5,494	4,285
General receipts:		
Unrestricted interest on investments	23,243	36,458
Miscellaneous	35,811	20,959
	\$1,960,625	\$1,731,646
Disbursements:		
Water	\$ 125,176	\$ 94,000
Electric	899,794	781,525
Gas	611,636	547,012
Sewer	180,117	376,874
Garbage	119,619	114,713
Customer deposits	1,739	2,809
	\$1,938,081	\$1,916,933
Change in cash basis net assets before transfers	\$ 22,544	\$ (185,287)
Transfer, net	(70,000)	---
	\$ (47,456)	\$ (185,287)
Cash basis net assets beginning of year	546,996	732,283
	\$ 499,540	\$ 546,996
Cash basis net assets end of year	\$ 499,540	\$ 546,996

Total business type activities disbursements for the fiscal year were \$1,938,081 compared to \$1,916,933 last year. The increase in electric was due primarily to updates that were needed to the light plant. The increase in water was due to a water system project. Sewer disbursements

decreased as a result of a completed sewer project that increased efficiency. Gas disbursements increased due to a rise in gas costs.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Preston completed this year, its governmental funds reported a combined fund balance of \$(51,823), a decrease of \$98,409 below 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 balance decreased from \$(16,269) to \$(100,859). The decrease of \$84,590 is due primarily to under budgeting of snow removal costs and other unexpected expenses.
- The Library Foundation Fund cash balance increased \$1,763 due to interest.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Water Fund cash balance increased \$28,407 due to an increase in water rates.
- The Electric Fund cash balance decreased \$86,858 due to unexpected replacement of electric equipment at the substation.
- The Gas Fund cash balance decreased \$227,235 as the result of an interfund loan to the sewer fund for the wastewater improvement project.
- The Garbage Fund cash balance decreased \$17,724 due primarily to the Garbage Fund paying for a portion of a tractor.

BUDGETARY HIGHLIGHTS

The City amended its budget only once during the fiscal year. It was amended and approved on May 26, 2008, to provide for additional disbursements in certain City departments. The City had sufficient cash balances to absorb these additional costs.

The City's receipts were \$450,729 less than budgeted. This was primarily due to the City not receiving several grants that had been applied for and included in budgeted receipts.

The City exceeded the amounts budgeted in the public safety, public works, and culture and recreation functions for the year ended June 30, 2008 due to unexpected expenses such as snow removal and other purchases that were made and not included in the budget.

DEBT ADMINISTRATION

At June 30, 2008, the City had \$590,572 in bonds and other long-term debt, compared to \$534,744 last year, as shown below.

Outstanding Debt at Year End

	June 30,	
	2008	2007
General obligation note	\$ 53,000	\$ 63,600
Revenue bonds	168,000	212,000
Revenue note	165,000	240,000
Promissory note	9,572	19,144
Other obligations	195,000	---
	-----	-----
Total	\$ 590,572	\$ 534,744
	=====	=====

Debt increased as a result an interfund loan from the Gas Fund to the Sewer Fund for the wastewater improvement project. The City anticipates issuing \$109,000 of general obligation notes for the purchase of a new fire truck in fiscal year 2009. 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 \$53,000 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 2009. Amount available for appropriation in the operating budget will be \$2,585,851, a decrease of 9% from the final 2008 budget. Property taxes are expected to increase approximately \$28,000 due to an increase in the assessed property valuations. The City will increase their contribution of in lieu of taxes to complete any projects that are expected to arise.

If these estimates are realized, the City's budgeted cash balance is expected to remain stable.

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, 2008

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	\$ 226,036	\$ 29,602	\$ 27,907	\$ 12,200	\$ (156,327)	\$ ---	\$ (156,327)
Public works	191,413	809	81,303	---	(109,301)	---	(109,301)
Culture and recreation	106,851	3,394	20,694	8,277	(74,486)	---	(74,486)
Community and economic development	7,579	---	---	---	(7,579)	---	(7,579)
General government	58,306	4,654	---	---	(53,652)	---	(53,652)
Debt service	13,136	---	---	---	(13,136)	---	(13,136)
Total Governmental Activities	\$ 603,321	\$ 38,459	\$ 129,904	\$ 20,477	\$ (414,481)	\$ ---	\$ (414,481)
Business Type Activities:							
Water	\$ 125,176	\$ 150,511	---	\$ ---	---	\$ 25,335	\$ 25,335
Electric	899,794	829,185	---	---	---	(70,609)	(70,609)
Gas	611,636	596,942	---	---	---	(14,694)	(14,694)
Sewer	180,117	186,996	---	---	---	6,879	6,879
Garbage	119,619	132,443	---	---	---	12,824	12,824
Customer deposits	1,739	5,494	---	---	---	3,755	3,755
Total Business Type Activities	\$ 1,938,081	\$ 1,901,571	\$ ---	\$ ---	\$ ---	\$ (36,510)	\$ (36,510)
Total	\$ 2,541,402	\$ 1,940,030	\$ 129,904	\$ 20,477	\$ (414,481)	\$ (36,510)	\$ (450,991)

See notes to financial statements.

CITY OF PRESTON
PRESTON, IOWA

STATEMENT OF ACTIVITIES AND NET ASSETS - CASH BASIS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Program Receipts			Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
	Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	Governmental Activities	Business Type Activities	Total
General Receipts:						
Property tax levied for:						
General purposes		\$ 147,711		\$		\$ 147,711
Other city tax		70,336				70,336
Unrestricted interest on investments		3,667		18,937		22,604
Miscellaneous		23,728		20,811		44,539
Interfund debt repayment				19,306		19,306
Transfers		70,000		(70,000)		
Total General Receipts and Transfers		\$ 315,442		\$ (10,946)		\$ 304,496
Change in Cash Basis Net Assets		\$ (99,039)		\$ (47,456)		\$ (146,495)
Cash Basis Net Assets Beginning of Year		51,529		546,996		598,525
Cash Basis Net Assets End of Year		\$ (47,510)		\$ 499,540		\$ 452,030
Cash Basis Net Assets:						
Restricted:						
Streets		\$ 10,898		\$		\$ 10,898
Library		57,545				57,545
Debt service				115,345		115,345
Other purposes		2,867		150		3,017
Unrestricted		(118,820)		384,045		265,225
Total Cash Basis Net Assets		\$ (47,510)		\$ 499,540		\$ 452,030

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, 2008**

		Special Revenue		

	General	Library Foundation	Nonmajor	Total
	-----	-----	-----	-----
Receipts:				
Property tax	\$ 147,711	\$ ---	\$ ---	\$ 147,711
Other city tax	65,914	---	---	65,914
Licenses and permits	7,007	---	---	7,007
Use of money and property	2,881	2,475	380	5,736
Intergovernmental	49,247	---	81,303	130,550
Charges for services	32,708	---	---	32,708
Special assessments	---	---	809	809
Miscellaneous	43,847	---	---	43,847
	-----	-----	-----	-----
Total Receipts	\$ 349,315	\$ 2,475	\$ 82,492	\$ 434,282
	-----	-----	-----	-----
Disbursements:				
Operating:				
Public safety	\$ 226,036	\$ ---	\$ ---	\$ 226,036
Public works	105,845	---	84,938	190,783
Culture and recreation	106,139	712	---	106,851
Community and economic development	7,579	---	---	7,579
General government	58,306	---	---	58,306
Debt service	---	---	13,136	13,136
	-----	-----	-----	-----
Total Disbursements	\$ 503,905	\$ 712	\$ 98,074	\$ 602,691
	-----	-----	-----	-----
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (154,590)	\$ 1,763	\$ (15,582)	\$ (168,409)
	-----	-----	-----	-----
Other Financing Sources (Uses):				
Transfers in	70,000	---	---	70,000
	-----	-----	-----	-----
Net Change in Cash Balances	\$ (84,590)	\$ 1,763	\$ (15,582)	\$ (98,409)
	-----	-----	-----	-----
Cash Balances Beginning of Year	(16,269)	45,250	17,605	46,586
	-----	-----	-----	-----
Cash Balances End of Year	\$ (100,859)	\$ 47,013	\$ 2,023	\$ (51,823)
	=====	=====	=====	=====

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, 2008**

	General	Special Revenue	Nonmajor	Total
		Library Foundation		
	-----	-----	-----	-----
Cash Basis Fund Balances:				
Unreserved:				
General fund	\$ (100,859)	\$ ---	\$ ---	\$ (100,859)
Special revenue funds	---	47,013	22,466	69,479
Debt service fund	---	---	(20,443)	(20,443)
	-----	-----	-----	-----
Total Cash Basis Fund Balances	<u>\$ (100,859)</u>	<u>\$ 47,013</u>	<u>\$ 2,023</u>	<u>\$ (51,823)</u>

**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, 2008**

Total governmental funds cash balances	\$ (51,823)
---	-------------

*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.

4,313

Cash basis net assets of governmental activities	\$ (47,510)
---	-------------

Net change in cash balances	\$ (98,409)
------------------------------------	-------------

*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.

(630)

Change in cash balance of governmental activities	\$ (99,039)
--	-------------

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, 2008

	Enterprise Funds						Internal Service Funds
	Water	Electric	Gas	Garbage	Nonmajor	Total	
Operating Receipts:							
Charges for services	\$ 150,511	\$ 829,185	\$ 596,942	\$ 132,443	\$ 192,490	\$ 1,901,571	\$ ---
Total Operating Receipts	\$ 150,511	\$ 829,185	\$ 596,942	\$ 132,443	\$ 192,490	\$ 1,901,571	\$ ---
Operating Disbursements:							
Salaries and wages	\$ 33,512	\$ 70,415	\$ 36,937	\$ 30,683	\$ 29,579	\$ 201,126	---
Employee benefits and costs	16,741	47,542	27,407	23,822	14,410	129,922	---
Staff development	876	298	3,774	---	756	5,704	---
Repairs, maintenance, and utilities	12,282	42,311	3,736	6,118	16,676	81,123	---
Contractual services	28,248	469,878	514,759	47,562	19,313	1,079,760	---
Commodities	10,363	48,511	18,127	4,538	11,583	93,122	2,517
Capital outlay	23,028	23,457	6,393	6,393	19,957	79,228	---
Total Operating Disbursements	\$ 125,050	\$ 702,412	\$ 611,133	\$ 119,116	\$ 112,274	\$ 1,669,985	\$ 2,517
Excess (Deficiency) of Operating Receipts Over (Under) Operating Disbursements	\$ 25,461	\$ 126,773	\$ (14,191)	\$ 13,327	\$ 80,216	\$ 231,586	\$ (2,517)

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, 2008

Enterprise Funds

	Water	Electric	Gas	Garbage	Nonmajor	Total	Internal Service Funds
Non-Operating Receipts (Disbursements):							
Interest on investments	\$ 1,310	\$ 6,506	\$ 13,950	\$ 1,176	\$ 301	\$ 23,243	\$ ---
Miscellaneous	1,636	11,616	3,006	3,221	1,332	20,811	---
Interfund loan	---	---	(210,000)	---	210,000	---	---
Repayment of interfund loan	---	---	15,000	---	---	15,000	---
Debt service	---	(96,190)	---	---	(69,456)	(165,646)	---
Capital projects	---	(100,563)	---	---	---	(100,563)	---
Net Non-Operating Receipts (Disbursements)	\$ 2,946	\$ (178,631)	\$ (178,044)	\$ 4,397	\$ 142,177	\$ (207,155)	\$ ---
Excess of Receipts Over Disbursements	\$ 28,407	\$ (51,858)	\$ (192,235)	\$ 17,724	\$ 222,393	\$ 24,431	\$ (2,517)
Operating Transfers Out	---	(35,000)	(35,000)	---	---	(70,000)	---
Net Change in Cash Balances	\$ 28,407	\$ (86,858)	\$ (227,235)	\$ 17,724	\$ 222,393	\$ (45,569)	\$ (2,517)
Cash Balances Beginning of Year	37,959	255,768	455,246	40,506	(240,743)	548,736	3,201
Cash Balances End of Year	\$ 66,366	\$ 168,910	\$ 228,011	\$ 58,230	\$ (18,350)	\$ 503,167	\$ 684
Cash Basis Fund Balances:							
Restricted:							
Debt service	\$ ---	\$ 115,345	\$ ---	\$ ---	\$ ---	\$ 115,345	\$ ---
Other purposes	---	150	---	---	---	150	---
Unrestricted	66,366	53,415	228,011	58,230	(18,350)	387,672	684
Total Cash Basis Fund Balances	\$ 66,366	\$ 168,910	\$ 228,011	\$ 58,230	\$ (18,350)	\$ 503,167	\$ 684

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, 2008**

Total enterprise funds cash balances	\$ 503,167
---	-------------------

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

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

(3,627)

Cash basis net assets of business type activities	\$ 499,540
--	-------------------

Net change in cash balances	\$ (45,569)
------------------------------------	--------------------

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

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

(1,887)

Change in cash balance of business type activities	\$ (47,456)
---	--------------------

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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.

B. Basis of Presentation

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

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

B. Basis of Presentation (Continued)

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

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

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

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

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. 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 Library Foundation Fund is used to account for donations restricted for use for the library.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

B. Basis of Presentation (Continued)

The City reports the following major proprietary funds:

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

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

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

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

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.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety, public works, and culture and recreation functions.

Note 2 - Cash and Pooled Investments:

The City's deposits in banks at June 30, 2008, 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, 2008, the City had the following investments:

Type	Fair Value	Maturity
Maquoketa Area Foundation	\$ 47,013	N/A

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

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

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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
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	---	---	---	---
2014-2017	---	---	---	---	---	---
Total	\$ 53,000	\$ 6,360	\$ 168,000	\$ 10,185	\$ 165,000	\$ 12,380

Year Ending June 30	Promissory Note		Other Obligations		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2009	\$ 9,572	\$ ---	\$ 20,000	\$ 8,028	\$ 170,172	\$ 23,093
2010	---	---	20,000	7,237	165,600	16,498
2011	---	---	20,000	6,448	81,600	9,520
2012	---	---	20,000	5,647	47,600	6,750
2013	---	---	20,000	4,837	30,600	5,261
2014-2017	---	---	95,000	10,418	95,000	10,418
Total	\$ 9,572	\$ ---	\$ 195,000	\$ 42,615	\$ 590,572	\$ 71,540

Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$715,000 in sewer revenue bonds issued in August 1991 and November 1992. Proceeds from the bonds provided financing for improvements to the sewer system. The bonds are payable solely from sewer customer net receipts and are payable through 2012. Annual principal and interest payments on the bonds are expected to require less than 70 percent of net receipts. The total principal and interest remaining to be paid on the bonds is \$178,185. For the current year, principal and interest paid and total customer net receipts were \$50,150 and \$76,461, respectively.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

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.

Revenue Notes

The City has pledged future electric customer receipts, net of specified operating disbursements, to repay \$580,000 in electric revenue notes issued in June 2002. Proceeds from the notes provided financing for improvements to the electric utility. The notes are payable solely from electric customer net receipts and are payable through 2010. Annual principal and interest payments on the bonds are expected to require less than 70 percent of net receipts. The total principal and interest remaining to be paid on the notes is \$177,380. For the current year, principal and interest paid and total customer net receipts were \$86,618 and \$126,773, respectively.

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.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 3 - Bonds and Notes Payable: (Continued)

- (e) All funds remaining after first making the required payments into the Sinking Fund, the Reserve Fund, and Improvement Fund, and after the Reserve Fund contains the required Reserve Fund balance, the net revenues will be set aside into the Surplus Fund.

The City is in compliance with the provisions noted above.

Note 4 - Pension and Retirement Benefits:

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

Most regular plan members are required to contribute 3.90% of their annual covered salary and the City is required to contribute 6.05% 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, 2008, 2007, and 2006, were \$24,799, \$22,663, and \$21,356, 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. This agreement was renewed for a period of three years in July 2007.

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 for a period of three years 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, 2008, primarily relating to the General Fund, is as follows:

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 6 - Compensated Absences: (Continued)

Type of Benefit	Amount
Vacation	\$ 10,870
	\$ 10,870

The liability has been computed based on rates of pay as of June 30, 2008.

Note 7 - Interfund Transfers:

The detail of interfund transfers for the year ended June 30, 2008, is as follows:

Transfer to	Transfer from	Amount
General	Enterprise:	
	Electric	\$ 35,000
	Gas	35,000
		\$ 70,000
		\$ 70,000

Transfers are used to 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 - Commitments:

In November 2007, a contract in the amount of \$239,186 was approved for the purchase of switchgear equipment for the upgrade of the electric system. In May 2008, a contract in the amount of \$24,750 was approved for engineering services related to the upgrade. No amounts had been paid under these contracts at June 30, 2008.

In June 2008, a contract in the amount of \$109,000 was approved for the purchase of a pumper/rescue truck. \$5,000 has been paid under this contract at June 30, 2008.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 10 - General Fund Account Balances:

The account balances of the General Fund as of June 30, 2008, are as follows:

General		\$ (101,317)
Police capital account		458

Total General Fund Balance		\$ (100,859)
		=====

Note 11 - Designation of Fund Balances:

		Special Revenue

Library purchases	\$	10,532
Fire department purchases		2,867

	\$	13,399
		=====

Note 12 - Deficit Fund Balance:

The General Fund, Special Assessment, and Debt Service Funds had deficit fund balances of \$100,859, \$1,831 and \$20,443, respectively, at June 30, 2008 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 \$33,092 at June 30, 2008. 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 follows on the next page.

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008**

Note 13 - Segment Information: (Continued)

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

Operating receipts	\$ 186,996
Operating disbursements	(110,535)

Operating income	\$ 76,461
Net non-operating receipts (disbursements)	141,876

Net change in cash balances	\$ 218,337
Cash balances beginning of year	(251,429)

Cash deficit end of year	\$ (33,092)
	=====
Cash basis fund balances:	
Restricted for debt service	\$ (33,092)
	=====

Note 14 - Subsequent Events:

In August 2008, the City issued \$109,000 of general obligation notes for the purchase of a pumper/rescue truck.

**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, 2008**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Budgeted	Net	Budgeted Amounts		Final to Net Variance
					Original	Final	
Receipts:							
Property tax	\$ 147,711	\$ ---	\$ ---	\$ 147,711	\$ 147,158	\$ 147,158	\$ 553
Other city tax	65,914	---	---	65,914	60,357	60,357	5,557
Licenses and permits	7,007	---	---	7,007	2,500	2,500	4,507
Use of money and property	5,736	23,243	---	28,979	49,500	49,500	(20,521)
Intergovernmental	130,550	---	---	130,550	282,000	282,000	(151,450)
Charges for services	32,708	1,901,571	---	1,934,279	1,788,700	2,238,700	(304,421)
Special assessments	809	---	---	809	421	421	388
Miscellaneous	43,847	35,811	---	79,658	65,000	65,000	14,658
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Receipts	\$ 434,282	\$ 1,960,625	\$ ---	\$ 2,394,907	\$ 2,395,636	\$ 2,845,636	\$ (450,729)
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Disbursements:							
Public safety	\$ 226,036	\$ ---	\$ ---	\$ 226,036	\$ 190,150	\$ 215,150	\$ (10,886)
Public works	190,783	---	---	190,783	75,000	120,000	(70,783)
Health and social services	---	---	---	---	600	600	600
Culture and recreation	106,851	---	---	106,851	94,575	99,575	(7,276)
Community and economic development	7,579	---	---	7,579	25,100	25,100	17,521
General government	58,306	---	---	58,306	69,600	69,600	11,294
Debt service	13,136	---	---	13,136	14,004	14,004	868
Business type activities	---	1,938,711	2,517	1,936,194	1,670,000	2,120,000	183,806
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
Total Disbursements	\$ 602,691	\$ 1,938,711	\$ 2,517	\$ 2,538,885	\$ 2,139,029	\$ 2,664,029	\$ 125,144
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>

**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, 2008**

	Governmental Funds Actual	Proprietary Funds Actual	Less Funds Not Budgeted	Net	Budgeted Amounts Original	Final	Final to Net Variance
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (168,409)	\$ 21,914	\$ (2,517)	\$ (143,978)	\$ 256,607	\$ 181,607	\$ (325,585)
Other Financing Sources (Uses), Net	70,000	(70,000)	---	---	---	75,000	(75,000)
Excess (Deficiency) of Receipts and Other Financing Sources Over (Under) Disbursements and Other Financing Uses	\$ (98,409)	\$ (48,086)	\$ (2,517)	\$ (143,978)	\$ 256,607	\$ 256,607	\$ (400,585)
Balances, Beginning of Year	46,586	551,937	3,201	595,322	1,293,269	1,293,269	(697,947)
Balances, End of Year	<u>\$ (51,823)</u>	<u>\$ 503,851</u>	<u>\$ 684</u>	<u>\$ 451,344</u>	<u>\$ 1,549,876</u>	<u>\$ 1,549,876</u>	<u>\$ (1,098,532)</u>

**CITY OF PRESTON
PRESTON, IOWA**

**NOTES TO REQUIRED SUPPLEMENTARY INFORMATION
BUDGETARY REPORTING
JUNE 30, 2008**

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 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 and disbursements by \$525,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety, public works, and culture and recreation functions.

**OTHER
SUPPLEMENTARY
INFORMATION**

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF CASH RECEIPTS, DISBURSEMENTS, AND CHANGES
IN CASH BALANCES - NONMAJOR GOVERNMENTAL FUNDS
AS OF AND FOR THE YEAR ENDED JUNE 30, 2008

	Special Revenue					Total
	Road Use Tax	Library Trust	Fire Department Trust	Special Assessments	Debt Service	
Receipts:						
Use of money and property	\$ ---	\$ 296	\$ 21	\$ ---	\$ 63	\$ 380
Intergovernmental	81,303	---	---	---	---	81,303
Special assessments	---	---	---	809	---	809
Total Receipts	\$ 81,303	\$ 296	\$ 21	\$ 809	\$ 63	\$ 82,492
Disbursements:						
Operating:						
Public works	\$ 84,938	\$ ---	\$ ---	\$ ---	\$ ---	\$ 84,938
Debt service	---	---	---	---	13,136	13,136
Total Disbursements	\$ 84,938	\$ ---	\$ ---	\$ ---	\$ 13,136	\$ 98,074
Excess (Deficiency) of Receipts Over (Under) Disbursements	\$ (3,635)	\$ 296	\$ 21	\$ 809	\$ (13,073)	\$ (15,582)
Cash Balances Beginning of Year	14,533	10,236	2,846	(2,640)	(7,370)	17,605
Cash Balances End of Year	<u>\$ 10,898</u>	<u>\$ 10,532</u>	<u>\$ 2,867</u>	<u>\$ (1,831)</u>	<u>\$ (20,443)</u>	<u>\$ 2,023</u>
Cash Basis Fund Balances:						
Unreserved:						
Special revenue funds	\$ 10,898	\$ 10,532	\$ 2,867	\$ (1,831)	\$ ---	\$ 22,466
Debt service fund	---	---	---	---	(20,443)	(20,443)
Total Cash Basis Fund Balances	\$ 10,898	\$ 10,532	\$ 2,867	\$ (1,831)	\$ (20,443)	\$ 2,023

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, 2008**

	Enterprise Funds		
	Sewer	Customer Deposits	Total
Operating Receipts:			
Charges for services	\$ 186,996	\$ 5,494	\$ 192,490
	-----	-----	-----
Total Operating Receipts	\$ 186,996	\$ 5,494	\$ 192,490
	-----	-----	-----
Operating Disbursements:			
Salaries and wages	\$ 29,579	\$ ---	\$ 29,579
Employee benefits and costs	14,410	---	14,410
Staff development	756	---	756
Repairs, maintenance and utilities	16,676	---	16,676
Contractual services	17,574	1,739	19,313
Commodities	11,583	---	11,583
Capital outlay	19,957	---	19,957
	-----	-----	-----
Total Operating Disbursements	\$ 110,535	\$ 1,739	\$ 112,274
	-----	-----	-----
Excess (Deficiency) of Operating Receipts Over (Under)			
Operating Disbursements	\$ 76,461	\$ 3,755	\$ 80,216
	-----	-----	-----
Non-Operating Receipts (Disbursements):			
Interest on investments	\$ ---	\$ 301	\$ 301
Miscellaneous	1,332	---	1,332
Interfund debt proceeds	210,000	---	210,000
Debt service	(69,456)	---	(69,456)
	-----	-----	-----
Net Non-Operating Receipts (Disbursements)	141,876	301	142,177
	-----	-----	-----
Excess of Receipts Over Disbursements	\$ 218,337	\$ 4,056	\$ 222,393
	-----	-----	-----
Cash Balances Beginning of Year	(251,429)	10,686	(240,743)
	-----	-----	-----
Cash Balances End of Year	\$ (33,092)	\$ 14,742	\$ (18,350)
	=====	=====	=====
Cash Basis Fund Balances:			
Unrestricted	\$ (33,092)	\$ 14,742	\$ (18,350)
	=====	=====	=====

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, 2008

	Shed Reserve	Insurance Reserve	Total
	-----	-----	-----
Operating Receipts:			
Charges for service	\$ ---	\$ ---	\$ ---
	-----	-----	-----
Operating Disbursements:			
Commodities	\$ 2,517	\$ ---	\$ 2,517
	-----	-----	-----
Net Change in Cash Balances	\$ (2,517)	\$ ---	\$ (2,517)
Cash Balances Beginning of Year	(2,321)	5,522	3,201
	-----	-----	-----
Cash Balances End of Year	\$ (4,838)	\$ 5,522	\$ 684
	=====	=====	=====
Cash Basis Fund Balances:			
Unreserved	\$ (4,838)	\$ 5,522	\$ 684
	=====	=====	=====

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE "4"

SCHEDULE OF INDEBTEDNESS
YEAR ENDED JUNE 30, 2008

Obligation	Date of Issue	Interest Rates	Amount Originally Issued	Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
Revenue Note: Electric	June 1, 2002	4.45-5.00%	\$ 580,000	\$ 240,000	\$ ---	\$ 75,000	\$ 165,000	\$ 11,618	\$ ---
Revenue Bonds:									
Sewer	August 1, 1991	3.00%	\$ 490,000	\$ 135,000	\$ ---	\$ 30,000	\$ 105,000	\$ 4,050	\$ ---
Sewer	November 25, 1992	3.00%	225,000	77,000	---	14,000	63,000	2,100	---
Total			\$ 212,000	\$ 212,000	\$ ---	\$ 44,000	\$ 168,000	\$ 6,150	\$ ---
Promissory Note: Rural Economic Development	January 17, 2000	0%	\$ 95,720	\$ 19,144	\$ ---	\$ 9,572	\$ 9,572	\$ ---	\$ ---
General Obligation Note: Fire truck	December 13, 2002	4.00%	\$ 106,000	\$ 63,600	\$ ---	\$ 10,600	\$ 53,000	\$ 2,536	\$ ---
Other Obligation: Sewer Fund - Interfund Loan	August 27, 2007	3.90-4.30%	\$ 210,000	\$ ---	\$ 210,000	\$ 15,000	\$ 195,000	\$ 4,306	\$ ---

See accompanying independent auditor's report.

CITY OF PRESTON
PRESTON, IOWA

BOND AND NOTE MATURITIES
JUNE 30, 2008

Year Ending June 30	Revenue Note		Revenue Bonds				Total
	Electric		Sewer		Sewer		
	Issued June 1, 2002		Issued August 1, 1991		Issued November 25, 1992		
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2009	4.85%	\$ 80,000	3.00%	\$ 35,000	3.00%	\$ 15,000	\$ 50,000
2010	5.00%	85,000	3.00%	35,000	3.00%	15,000	50,000
2011		---	3.00%	35,000	3.00%	16,000	51,000
2012		---		---	3.00%	17,000	17,000
Total		\$ 165,000		\$ 105,000		\$ 63,000	\$ 168,000

Year Ending June 30	Promissory Note		General Obligation Note		Other Obligation	
	Rural Economic Dev.		Fire Truck		Sewer	
	Issued January 17, 2000		Issued December 13, 2002		Issued August 27, 2007	
Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount	
2009	0.00%	\$ 9,572	4.00%	\$ 10,600	3.95%	\$ 20,000
2010		---	4.00%	10,600	3.95%	20,000
2011		---	4.00%	10,600	4.00%	20,000
2012		---	4.00%	10,600	4.05%	20,000
2013		---	4.00%	10,600	4.10%	20,000
2014		---		---	4.15%	20,000
2015		---		---	4.20%	25,000
2016		---		---	4.25%	25,000
2017		---		---	4.30%	25,000
Total		\$ 9,572		\$ 53,000		\$ 195,000

See accompanying independent auditor's report.

SCHEDULE "6"

CITY OF PRESTON
PRESTON, IOWA

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

	2008	2007	2006	2005	2004	2003	2002
Receipts:							
Property tax	\$ 147,711	\$ 146,562	\$ 136,435	\$ 134,029	\$ 137,691	\$ 135,861	\$ 119,137
Other city tax	65,914	65,542	56,045	55,086	60,174	58,538	52,828
Licenses and permits	7,007	6,060	10,708	2,710	4,421	5,889	6,381
Use of money and property	5,736	13,943	20,762	11,153	29,453	134,037	75,997
Intergovernmental	130,550	122,601	121,067	120,903	128,064	155,120	273,799
Charges for service	32,708	37,267	26,154	25,927	29,365	27,081	27,895
Special assessments	809	23,799	421	1,353	5,974	1,700	1,384
Miscellaneous	43,847	30,008	35,102	29,722	23,005	7,152	26,473
	<u>\$ 434,282</u>	<u>\$ 445,782</u>	<u>\$ 406,694</u>	<u>\$ 380,883</u>	<u>\$ 418,147</u>	<u>\$ 525,378</u>	<u>\$ 583,894</u>
Disbursements:							
Operating:							
Public safety	\$ 226,036	\$ 185,318	\$ 171,555	\$ 143,485	\$ 138,002	\$ 220,395	\$ 215,714
Public works	190,783	76,383	93,386	144,658	94,064	78,665	82,190
Health and social services	---	---	368	550	525	918	2,070
Culture and recreation	106,851	145,582	97,272	107,733	89,902	88,753	83,876
Community and economic development	7,579	14,639	10,816	18,489	22,359	31,711	105,761
General government	58,306	54,478	51,821	52,559	57,024	55,317	58,487
Debt service	13,136	13,567	14,003	14,412	16,819	---	---
Capital projects	---	457,744	---	---	---	---	---
	<u>\$ 602,691</u>	<u>\$ 947,711</u>	<u>\$ 439,221</u>	<u>\$ 481,886</u>	<u>\$ 418,695</u>	<u>\$ 475,759</u>	<u>\$ 548,098</u>

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, and the aggregate remaining fund information of the City of Preston, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued our report thereon dated January 13, 2009. We expressed an unqualified opinion on the financial statements of the various opinion units of the primary government and an adverse opinion on the aggregate discretely presented component units due to the omission of the financial data for the City's legally separate component units. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Preston's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our 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, including 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 items I-A-08, I-B-08, and I-C-08 are material weaknesses.

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, 2008, are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

We noted certain other matters that were reported to management in a separate letter dated January 13, 2009.

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 13, 2009

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

Part I: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One individual at the City has custody of receipts and performs all recordkeeping and reconciling functions for the accounts.

Recommendation - We realize that with a limited number of office employees, segregation of duties is difficult. However, the City should review its control procedures to obtain maximum internal control possible under the circumstances. A council member should receive the bank statement each month and review its contents. This review should be documented by the council member initialing the statement.

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

Conclusion - Response accepted.

I-B-08 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-08 Adjusting Journal Entries - Several adjusting journal entries were proposed to management to represent a fair presentation of the financial statements. Significant adjustments were made for local option sales tax receipts, grant receipts, a down payment for equipment, and the activity in the Library Foundation Fund.

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

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008**

Part I: Findings Related to the Financial Statements:

Response - We will consider this.

Conclusion - Accept response.

- I-D-08 Heat Assistance Funds - The City received heat assistance funding for some of its utility customers. These monies were deposited into a savings account; however, the savings account was not recorded in the City's accounting records.

Recommendation - All bank accounts and receipts should be recorded in the City's accounting records.

Response - We will record all bank accounts and receipts in the City's accounting records.

Conclusion - Response accepted.

Part II: Other Findings Related to Statutory Reporting:

- II-A-08 Certified Budget - Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the public safety, public works, and culture and recreation 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-08 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-08 Travel Expense - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**CITY OF PRESTON
PRESTON, IOWA**

**SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008**

Part II: Other Findings Related to Statutory Reporting:

II-D-08 Business Transactions - No business transactions between the City and City officials or employees were noted.

II-E-08 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-08 Council Minutes - No transactions were found that we believe should have been approved in the council minutes but were not.

II-G-08 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-08 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-08 Financial Condition - The General Fund had a deficit balance of \$100,859; the Special Revenue, Special Assessments Fund had a deficit balance of \$1,831, the Debt Service Fund had a deficit balance of \$20,443; and the Enterprise, Sewer Fund had a deficit balance of \$33,092 at June 30, 2008.

Recommendation - The City should investigate alternatives to eliminate these deficits in order to return the funds to a sound financial position such as approving transfers to the Debt Service Fund in amounts sufficient to provide for the principal and interest due on the City's general obligation debt.

CITY OF PRESTON
PRESTON, IOWA

SCHEDULE OF FINDINGS
YEAR ENDED JUNE 30, 2008

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

Response - We will investigate ways to eliminate these deficits.

Conclusion - Response accepted.

II-J-08 Local Option Sales and Services Tax - Sales tax on gas services provided to residential customers was not uniformly assessed.

Recommendation - The City should uniformly assess local option sales and services tax on metered gas provided to residential customers in accordance with the Iowa Department of Revenue Administrative Rules and Regulations.

Response - This will be corrected.

Conclusion - Response accepted.

II-K-08 Fire Protection Agreements - The City provides fire protection services to several townships; however, the agreements under which these services are provided expired on January 1, 2005.

Recommendation - The City should review and update these agreements if it is going to continue to provide fire protection services to these townships.

Response - We will review these agreements.

Conclusion - Response accepted.

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

We have audited the financial statements of the City of Preston as of June 30, 2008 and have issued our report thereon dated January 13, 2009. Professional standards require that we provide you with the following information related to our audit.

Our Responsibilities under U.S. Generally Accepted Auditing Standards and *Government Auditing Standards*

As stated in our engagement letter dated July 8, 2008, our responsibility, as described by professional standards, is to express an opinion about whether the financial statements prepared by management with your oversight are fairly presented, in all material respects, in conformity with U.S. generally accepted accounting principles. Our audit of the financial statements does not relieve you or management of your responsibilities.

As part of our audit, we considered the internal control of the City of Preston. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the City of Preston's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Planned Scope and Timing of the Audit

We performed the audit according to the planned scope and timing communicated to you on July 8, 2008.

Significant Audit Findings

Qualitative Aspects of Accounting Practices

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms in our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies

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used by the City of Preston are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during fiscal year 2008. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. There are no significant transactions that have been recognized in the financial statements in a different period than when the transaction occurred.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

No particularly sensitive estimates were noted.

The disclosures in the financial statements are neutral, consistent, and clear. Certain financial statement disclosures can be particularly sensitive because of their significance to financial statement users.

No particularly sensitive disclosures were noted.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing and completing our audit.

Corrected and Uncorrected Misstatements

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. Certain adjusting journal entries were suggested to, and approved by, management. These journal entries were provided to Brenda Tebbe on November 3, 2008.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Management Representations

We have requested certain representations from management that are included in the management representation letter dated January 13, 2009.

Management Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Other Audit Findings or Issues

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of the City Council of the City of Preston 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 13, 2009