



**OFFICE OF AUDITOR OF STATE**  
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 12, 2005

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Auditor of State David A. Vaudt today released an audit report on the City of Johnston, Iowa.

The City has implemented new reporting standards for the year ended June 30, 2004, with significant changes in content and structure of the financial statements. The new financial statements include a Statement of Net Assets and a Statement of Activities which provide information about the activities of the City as a whole and present a longer-term view of the City's finances. Also included is Management's Discussion and Analysis of the City's financial statements.

The City's revenues totaled \$23,460,267 for the year ended June 30, 2004. Revenues included \$6,263,040 in property tax, \$3,401,251 from tax increment financing, \$4,693,374 from charges for service, \$1,145,132 from operating grants, contributions and restricted interest, \$7,789,925 from capital grants, contributions and restricted interest, \$43,489 from unrestricted investment earnings and \$124,056 from other general revenues. The City also reported a decrease in joint venture equity of \$133,867.

Expenses for City operations totaled \$13,426,367. Expenses included \$2,726,734 for public works, \$2,513,431 for community and economic development and \$1,498,668 for culture and recreation. Expenses for business type activities totaled \$3,153,605.

A copy of the audit report is available for review in the Office of Auditor of State and the City Clerk's office.

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**CITY OF JOHNSTON**  
**INDEPENDENT AUDITOR'S REPORTS**  
**BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION**  
**SCHEDULE OF FINDINGS AND QUESTIONED COSTS**  
**JUNE 30, 2004**

## Table of Contents

		<u>Page</u>
Officials		3
Independent Auditor's Report		5-6
Management's Discussion and Analysis		7-14
Basic Financial Statements:	<u>Exhibit</u>	
Government-wide Financial Statements:		
Statement of Net Assets	A	16-17
Statement of Activities	B	18-19
Governmental Fund Financial Statements:		
Balance Sheet	C	20-21
Reconciliation of the Balance Sheet – Governmental Funds to the Statement of Net Assets	D	23
Statement of Revenues, Expenditures and Changes in Fund Balances	E	24-25
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances – Governmental Funds to the Statement of Activities	F	27
Proprietary Fund Financial Statements:		
Statement of Net Assets	G	28-29
Statement of Revenues, Expenses and Changes in Fund Net Assets	H	30
Statement of Cash Flows	I	32-33
Notes to Financial Statements		34-50
Required Supplementary Information:	<u>Schedule</u>	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances – Budget and Actual (Cash Basis) – Governmental Funds and Proprietary Funds		52-53
Budget to GAAP Reconciliation		54
Notes to Required Supplementary Information – Budgetary Reporting		55
Other Supplementary Information:		
Nonmajor Special Revenue Funds:		
Combining Balance Sheet	1	58-59
Combining Statement of Revenues, Expenditures and Changes in Fund Balances	2	60-61
Internal Service Funds:		
Combining Statement of Net Assets	3	62
Combining Statement of Revenues, Expenses and Changes in Fund Net Assets	4	63
Combining Statement of Cash Flows	5	64
Schedule of Revenues by Source and Expenditures by Function - All Governmental Funds	6	65
Schedule of Expenditures of Federal Awards	7	66
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting		69-70
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance		73-74
Schedule of Findings and Questioned Costs		75-81
Staff		82

**City of Johnston**

**Officials**

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>(Before January 2004)</b>		
Bob O'Hollearn	Mayor	Resigned July 13, 2003
Brian Laurenzo (appointed)	Mayor	Nov 2003
Brian Laurenzo	Mayor Pro tem	Jul 2003
Paula Dierenfeld	Council Member	Jan 2004
John Temple	Council Member	Jan 2004
Russell Underwood	Council Member	Jan 2006
Mike Wilson	Council Member	Jan 2006
James P. Sanders	Administrator	Indefinite
Margaret A. Sharp	Finance Director	Indefinite
Stephanie L. Reynolds	City Clerk	Indefinite
J. Russell Hixson	Attorney	Indefinite
<b>(After January 2004)</b>		
Brian Laurenzo	Mayor	Jan 2006
John Temple	Mayor Pro tem	Jan 2008
Mike Wilson	Council Member	Jan 2006
Russell Underwood	Council Member	Jan 2006
Paula Dierenfeld	Council Member	Jan 2008
Mary Davis	Council Member	Jan 2008
James P. Sanders	Administrator	Indefinite
Margaret A. Sharp	Finance Director	Indefinite
Stephanie L. Reynolds	City Clerk	Indefinite
J. Russell Hixson	Attorney	Indefinite

**City of Johnston**



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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 Johnston, Iowa, as of and for the year ended June 30, 2004, 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 Johnston's management. Our responsibility is to express opinions on these financial statements based on our audit. We did not audit the financial statements of the Des Moines Metropolitan Wastewater Reclamation Authority, a joint venture. The City of Johnston's financial statements include a joint venture equity interest of \$4,055,608, a liability for revenue bonds/notes issued by the joint venture of \$524,262 as of June 30, 2004 and a decrease in the investment in joint venture of \$133,867 for the year then ended. Those financial statements were audited by other auditors whose report has been furnished to us, and our opinion, insofar as it relates to the amounts included for the joint venture in the proprietary fund type, is based solely on the report of the other auditors.

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

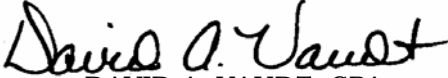
In our opinion, based on our audit and the report of other auditors, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Johnston at June 30, 2004, and the respective changes in financial position and cash flows, where applicable, for the year then ended in conformity with U.S. generally accepted accounting principles.

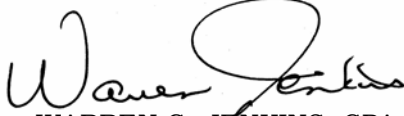
As described in Note 13 to the financial statements, for the year ended June 30, 2004, the City of Johnston adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; Statement No. 41, Budgetary Comparison Schedule – Perspective Differences; and Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements.

In accordance with Government Auditing Standards, we have also issued our reports dated November 12, 2004 on our consideration of the City of Johnston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 14 and 52 through 55 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 supplementary information. We did not audit the information and express no opinion on it.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Johnston'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 year ended June 30, 2003 (which are not presented here) and expressed an unqualified opinion on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, 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 our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2004

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## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

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The City of Johnston provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2004. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

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

### **2004 FINANCIAL HIGHLIGHTS**

- Revenues of the City's governmental funds increased 4%, or approximately \$517,000, from fiscal 2003 to fiscal 2004. Property tax increased approximately \$900,000, intergovernmental revenue increased approximately \$696,000 and tax increment financing decreased approximately \$861,000.
- Governmental fund expenditures increased 3%, or approximately \$435,000, in fiscal 2004 from fiscal 2003. Community and economic development and debt service expenditures increased approximately \$674,000 and \$374,000 respectively. Capital projects decreased approximately \$846,000.
- The City's net assets increased 18%, or approximately \$9,900,000, from June 30, 2003 to June 30, 2004. Of this amount, the net assets of the governmental activities increased approximately \$7,644,000 and the net assets of the business type activities increased by approximately \$2,256,000.

### **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 Statements consists of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of the City of Johnston as a whole and present 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 of Johnston's operations in more detail than the government-wide statements 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 Special Revenue Funds. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.



## **REPORTING THE CITY'S FINANCIAL ACTIVITIES**

### *Government-wide Financial Statements*

One of the most important questions asked about the City's finances is, "Is the City as a whole better or worse off as a result of the year's activities?" The Statement of Net Assets and the Statement of Activities report information which helps answer this question. These statements include all assets and liabilities using the accrual basis of accounting and the economic resources measurement focus, which is similar to the accounting used by most private sector companies. All of the current year's revenues and expenses are taken into account, regardless of when cash is received or paid.

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "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 presents information showing how the City's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will not result in cash flows until future fiscal periods.

The Statement of Net Assets and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, the sanitary sewer system and the City's sanitation department. 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 those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Urban Renewal Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

The required financial statements for governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

2) Proprietary funds account for the City's Enterprise Funds. These funds report services for which the City charges customers for the service it provides. Proprietary funds are reported in the same way all activities are reported in the Statement of Net Assets and the Statement of Activities. The major difference between the proprietary funds and the business type activities included in the government-wide statements is the detail and additional information, such as cash flows, provided in the proprietary fund statements. The Enterprise Funds include the Water and Sewer Funds, each considered to be a major fund of the City. The City is responsible for ensuring the assets reported in these funds are used only for their intended purposes and by those to whom the assets belong.

The financial statements required for proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in fund net assets and a statement of cash flows.

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

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

As noted earlier, net assets may serve over time as a useful indicator of financial position. The analysis that follows focuses on the net assets for governmental and business type activities.

Net Assets June 30, 2004 (Expressed in Thousands)			
	Governmental Activities	Business Type Activities	Total
Current and other assets	\$ 21,191	10,424	31,615
Capital assets	56,718	25,319	82,037
Total assets	<u>77,909</u>	<u>35,743</u>	<u>113,652</u>
Long-term liabilities	30,570	8,280	38,850
Other liabilities	9,627	610	10,237
Total liabilities	<u>40,197</u>	<u>8,890</u>	<u>49,087</u>
Net assets:			
Invested in capital assets, net of related debt	29,044	17,266	46,310
Restricted	6,246	1,235	7,481
Unrestricted	2,422	8,352	10,774
Total net assets	<u>\$ 37,712</u>	<u>26,853</u>	<u>64,565</u>

Net assets of governmental activities increased from fiscal 2003 by approximately \$7,644,000, or 25%. Net assets of business type activities increased from fiscal 2003 by approximately \$2,256,000, or 9%. The largest portion of the City's net assets is the invested in capital assets (e.g., land, infrastructure, buildings and equipment), less the related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets. Restricted net assets represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net assets, the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$10,774,000 at the end of this year.

Changes in Net Assets  
Year ended June 30, 2004  
(Expressed in Thousands)

	Governmental Activities	Business Type Activities	Total
Revenues:			
Program revenues:			
Charges for service	\$ 854	3,839	4,693
Operating grants, contributions and restricted interest	1,145	-	1,145
Capital grants, contributions and restricted interest	6,507	1,283	7,790
General revenues:			
Property tax levied for:			
General purposes	4,128	-	4,128
Debt service	2,135	-	2,135
Tax increment financing	3,401	-	3,401
Grants and contributions not restricted to specific purpose	29	-	29
Unrestricted investment earnings	11	33	43
Gain on sale of capital assets	8	-	8
Miscellaneous	82	5	87
Total revenues	<u>18,300</u>	<u>5,160</u>	<u>23,460</u>
Program expenses:			
Public safety	1,256	-	1,256
Public works	2,727	-	2,727
Health and social services	37	-	37
Culture and recreation	1,499	-	1,499
Community and economic development	2,513	-	2,513
General government	904	-	904
Interest on long-term debt	1,337	-	1,337
Water	-	2,097	2,097
Wastewater	-	1,056	1,056
Total expenses	<u>10,273</u>	<u>3,153</u>	<u>13,426</u>
Change in net assets	8,027	2,007	10,034
Operating transfers, net	(383)	383	-
Decrease in joint venture equity	-	(134)	(134)
Net assets beginning of year, as restated	<u>30,068</u>	<u>24,597</u>	<u>54,665</u>
Net assets end of year	<u>\$ 37,712</u>	<u>26,853</u>	<u>64,565</u>

While the tax rate decreased approximately .3%, tax revenue increased approximately \$900,000. This was a result of increased taxable valuations. Specifically, building permits continue to be issued at a steady pace. Tax increment financing valuation of \$6,899,380 was released which increased the taxable valuation used to calculate the general fund tax levy. The City received \$809,032 in Federal Surface Transportation Program funds for the NW Beaver Dr Street Improvement Project.

## **INDIVIDUAL MAJOR FUND ANALYSIS**

### **Governmental Fund Highlights**

As the City of Johnston completed the year, its governmental funds reported a combined fund balance of \$10,368,630, which is more than the restated \$7,044,649 total fund balance at June 30, 2003. The following are the major reasons for the changes in fund balances of the major governmental funds from the prior year.

The General Fund balance increased by \$1,319,823 to \$2,414,078. Bond proceeds of \$723,395 were on hand for the purchase of a fire truck in FY05. Polk County Fire District No. One was dissolved and became a department of the City. The fire department's cash of \$138,549 plus the department's real property were transferred to the City. The City's reserve funds of \$189,013 were recorded into the General Fund. A Neighborhood Improvement Program was started. The program provides up to \$1,500 in matching funds and is designed to encourage citizens to become involved in improving the appearance of their neighborhoods. Eagle Ridge and Northglenn neighborhoods were each awarded \$1,500 for their projects. The Spring Clean Up in May, 2004 provided residents the opportunity to drop off yard waste, white goods and tires at the Public Works facility.

The Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund balance decreased by \$567,287 to \$3,404,058 during the fiscal year. The decrease was attributable to the maturity of the general obligation refunding capital loan notes. TIF revenue on hand was used to pay the TIF portion of the notes relating to sanitary sewer improvement projects in 1998 for NW 62<sup>nd</sup> Avenue, NW Beaver Dr and NW 61<sup>st</sup> Avenue.

The Debt Service Fund balance ended the year at \$2,702,820. The June 30, 2004 fund balance included 2004A bond proceeds to be used to call, on July 1, 2004, the 1997B and 1997C bond issues. Approximately \$303,000 in economic gain was realized.

The Capital Projects Fund balance decreased \$741,210 to \$510,159. Bond proceeds on hand were used for the NW Beaver Dr Street improvements construction. An ordinance was adopted that requires developers of residential housing projects to dedicate land for parks. Trail extension construction continues in various subdivisions. They included Ashton Pointe, Newport Vista, Green Meadows North, Century Trace and Terra Lake Trails. The City was the recipient of \$6,000 through the Revitalization Assistance for Community Improvement (RACI) Grant Program sponsored by Prairie Meadows Racetrack and Casino and the Iowa Department of Economic Development. The money was received by the City and passed on to the Johnston Station Historical Society to assist in the installation of electrical wiring and heating and air conditioning systems in the Simpson Barn located in Johnston Commons Park. When improvements are completed, the Simpson Barn will be given to the City to operate as a community center for events and private party rentals.

### **Proprietary Fund Highlights**

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2004 with an \$11,613,460 net asset balance compared to the prior year ending net asset balance of \$10,591,008.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment system, ended fiscal 2004 with a \$15,239,262 net asset balance compared to the prior year ending net asset balance of \$14,005,973.

The increase in both the Water and Sewer Funds is primarily due to improvements donated to the City by Developers. In addition, with the assistance of the Des Moines Water Works, staff is identifying and repairing leaks in the city's water distribution system. Cost savings have been realized from the repair of leaks in the water system.

## **BUDGETARY HIGHLIGHTS**

Before the start of the fiscal 2004 budget year, \$87,071 in budget cuts were made in response to a bill passed by the Iowa Legislature and signed by Governor Vilsack. The bill reduced state funding to cities.

Over the course of the year, the City amended its budget two times. The first amendment was approved on February 2, 2004 and resulted in an increase in capital project disbursements related to the NW Beaver Dr Street Improvements. Some of the project had been budgeted in the prior year. Construction did not start until after July 4, 2003. The cash balance, which includes bond proceeds at June 30, 2003, was available to cover construction expenses. The second amendment was approved on May 17, 2004 to provide for additional disbursements in various City departments. The City had sufficient cash balances to absorb these additional costs.

## **CAPITAL ASSETS AND DEBT ADMINISTRATION**

### **Capital Assets**

The City's capital assets include land, buildings and improvements, equipment, streets, water and wastewater systems, lighting systems, traffic signals and other infrastructure. Capital assets for governmental activities totaled \$56,717,845 (net of accumulated depreciation) at June 30, 2004. Capital assets for business type activities totaled \$25,319,383 (net of accumulated depreciation) at June 30, 2004.

The major capital outlays for governmental activities during the year included NW Beaver Dr Street Improvements, NW 86<sup>th</sup> Street Sidewalk Improvements, completion of NW 62<sup>nd</sup> Av, Section 2B Street Improvements and trail construction.

For business type activities, major additions included radio read meters and infrastructure.

### **Long-Term Debt**

At June 30, 2004, the City had \$30,380,000 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$8,577,430 at June 30, 2004. During the year ended June 30, 2004, the City issued a total of \$4,410,000 in general obligation bonds, partially to finance refunding of the 1992, 1997B, 1997C and 2002A bonds. The new bonds provided a lower interest cost over the life of the bonds. The 2004A bonds were also used to finance improvements for the start of the NW Beaver Dr Sanitary Sewer Project to enable the City to comply with an Iowa Department of Natural Resources Administrative Order to abate wastewater discharge from private home treatment systems into storm sewers located in at least five subdivisions with the city limits.

The 1991 Sewer Revenue capital loan notes of the business type activities were refunded. The new revenue bonds provided a lower interest cost over the life of the bonds.

## **ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE**

Several factors affected decisions made by the City in setting its fiscal 2005 budget. Legislative action eliminated the state's consolidated payments to cities, bank franchise tax and machinery and equipment reimbursements. These revenue losses combined with rising health insurance premiums and other employee benefits were a major challenge.

The Council has had a long-standing goal to maintain a tax rate below \$10.00 per \$1,000 of taxable valuation. When the library project was conceived, it was decided that if the public voted support for the project, the council would levy above \$10.00/\$1,000 the amount necessary to pay for the debt service and the additional expense to staff the library. The library referendum was supported by nearly 70% of the community.

The property tax roll back reduced the taxable valuation for residential properties from 51.25% to 48.46% and for commercial properties from 100% to 99.25%. Based on current valuations, the change in the roll back reduced the taxable valuation in Johnston by \$20,437,712 for residential and for commercial valuation by \$1,545,205. This valuation reduction produced a loss in property tax revenue of \$237,633.

In establishing the Tax Increment Financing (TIF) program, the City anticipated releasing valuation in the TIF districts when the valuation reached a level greater than the amount necessary to fund the TIF obligations. In the FY05 budget we were able to release \$6,899,380 in TIF valuation. The total amount of valuation that has been released to the tax rolls in two years is \$37,804,746.

While the City has lost revenue from the state and tax revenue was reduced because of the property tax roll back, the release of TIF valuation allowed the city to levy \$10.80991/\$1,000 for fiscal 2005 compared to \$10.88788 for fiscal 2004.

The General Fund is projected to end fiscal 2005 with a fund balance of approximately \$985,000.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2005 are provided below:

General levy	\$	7.81264
Debt Service levy		<u>2.99727</u>
Total	\$	<u><u>10.80991</u></u>

The installation of automated water meters will continue through fiscal 2005 in the Enterprise, Water Fund.

Three major projects are in the planning/design phase. They are an outdoor aquatic facility, NW 70<sup>th</sup> Avenue reconstruction and NW 62<sup>nd</sup> Avenue reconstruction, west from NW 86<sup>th</sup> St.

- The City of Johnston is working with the City of Grimes to set out terms, conditions and other issues related to the construction and operation of a joint outdoor aquatic facility. The voters of the City of Johnston will determine whether a new facility will be constructed.
- NW 70<sup>th</sup> Avenue reconstruction from NW Beaver Drive to NW 86<sup>th</sup> Street is estimated to cost \$17.1 million. The City is seeking \$5 million in fiscal 2005 and \$2.9 million in fiscal 2006 and fiscal 2007 from the Iowa Congressional Delegation. These funds would come through the reauthorization of the transportation bill (formerly TEA-21) and annual Congressional appropriations. The City has been approved for \$1.3 million in Federal Surface Transportation Program (STP) funding awarded by the Des Moines Area MPO in fiscal 2005 and fiscal 2006. The City is also requesting an additional \$1.75 million in STP funding from the Des Moines Area MPO in fiscal 2008. Construction of phase 1, beginning at the NW 70<sup>th</sup> Avenue/Merle Hay Road area is scheduled to begin in the summer of 2005. The main entrance to Camp Dodge is served by NW 70<sup>th</sup> Avenue.
- NW 62<sup>nd</sup> Avenue reconstruction, west of NW 86<sup>th</sup> Street approximately 5,500 feet, is a continuation of improvements on NW 62<sup>nd</sup> Ave from Merle Hay Road west to NW 86<sup>th</sup> St. Residential development and a new school in the area have necessitated the upgrade of NW 62<sup>nd</sup> Ave. Total cost is yet to be determined.

## **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 any questions about this report or need additional financial information, contact the Finance Director, 6221 Merle Hay Road, P.O. Box 410, Johnston, IA, 50131-0410.

## **Basic Financial Statements**



**Exhibit A**

City of Johnston  
Statement of Net Assets  
June 30, 2004

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>Assets</b>			
Cash and pooled investments	\$ 10,141,600	4,213,184	14,354,784
Cash and investments held by Library Foundation	225,578	-	225,578
Receivables:			
Property tax:			
Delinquent	23,921	-	23,921
Succeeding year	6,107,000	-	6,107,000
Tax increment financing:			
Delinquent	2,950	-	2,950
Succeeding year	2,996,000	-	2,996,000
Customer accounts and unbilled usage	-	415,341	415,341
Accounts	330,574	62,415	392,989
Special assessments	921,063	-	921,063
Accrued interest	3,569	2,413	5,982
Due from other governments	322,810	-	322,810
Inventories	-	86,289	86,289
Prepaid expenses	116,193	11,470	127,663
Restricted assets:			
Cash and pooled investments	-	1,426,847	1,426,847
Receiveables:			
Special assessments	-	134,679	134,679
Accounts	-	4,179	4,179
Accrued interest	-	375	375
Bond issue costs	-	10,810	10,810
Capital assets (net of accumulated depreciation)	56,717,845	25,319,383	82,037,228
Des Moines Metropolitan Wastewater Reclamation Authority (WRA) assets:			
Investment in joint venture	-	4,055,608	4,055,608
<b>Total assets</b>	<b>77,909,103</b>	<b>35,742,993</b>	<b>113,652,096</b>

City of Johnston  
Statement of Net Assets  
June 30, 2004

	Primary Government		Total
	Governmental Activities	Business Type Activities	
<b>Liabilities</b>			
Accounts payable	201,687	90,495	292,182
Accrued interest payable	107,989	6,649	114,638
Salaries and benefits payable	151,863	12,554	164,417
Contracts payable	42,785	1,938	44,723
Due to other governments	10,976	155,216	166,192
Deferred revenue:			
Succeeding year property tax	6,107,000	-	6,107,000
Succeeding year tax increment financing	2,996,000	-	2,996,000
Other	8,750	-	8,750
Liabilities payable from restricted assets:			
Customer deposits	-	11,455	11,455
Revenue notes payable	-	255,000	255,000
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	-	53,874	53,874
Accrued interest payable	-	23,590	23,590
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	3,350,000	1,095,000	4,445,000
Compensated absences	116,269	8,488	124,757
Portion due or payable after one year:			
General obligation bonds/notes	27,030,000	569,256	27,599,256
Revenue notes payable	-	6,133,912	6,133,912
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	-	470,388	470,388
Compensated absences	73,935	2,456	76,391
<b>Total liabilities</b>	<b>40,197,254</b>	<b>8,890,271</b>	<b>49,087,525</b>
<b>Net Assets</b>			
Invested in capital assets, net of related debt	29,044,478	17,266,215	46,310,693
Restricted for:			
Debt service	4,908,082	-	4,908,082
Revenue note retirement	-	851,350	851,350
Improvements	-	382,671	382,671
Other purposes	1,337,515	-	1,337,515
Unrestricted	2,421,774	8,352,486	10,774,260
<b>Total net assets</b>	<b>\$ 37,711,849</b>	<b>26,852,722</b>	<b>64,564,571</b>

See notes to financial statements.

City of Johnston  
Statement of Activities  
Year ended June 30, 2004

<b>Functions / Programs:</b>	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
<b>Primary Government:</b>				
Governmental activities:				
Public safety	\$ 1,255,604	68,378	178,460	-
Public works	2,726,734	23,705	734,047	6,411,229
Health and social services	36,664	-	-	-
Culture and recreation	1,498,668	34,747	195,368	25,919
Community and economic development	2,513,431	726,018	21,928	-
General government	904,166	1,732	-	-
Interest on long-term debt	1,337,495	-	15,329	69,545
Total governmental activities	10,272,762	854,580	1,145,132	6,506,693
Business type activities:				
Water	2,097,720	2,529,012	-	574,635
Sewer	1,055,885	1,309,782	-	708,597
Total business type activities	3,153,605	3,838,794	-	1,283,232
<b>Total Primary Government</b>	<b>\$ 13,426,367</b>	<b>4,693,374</b>	<b>1,145,132</b>	<b>7,789,925</b>

**General Revenues:**

Property and other city tax levied for:  
  General purposes  
  Debt service  
Tax increment financing  
Grants and contributions not restricted to specific purpose  
Unrestricted investment earnings  
Gain on sale of capital assets  
Miscellaneous  
Transfers  
Decrease in joint venture equity  
Total general revenues, transfers and decrease in joint venture equity

Change in net assets

Net assets beginning of year, as restated

Net assets end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Primary Government		
Governmental Activities	Business Type Activities	Total
(1,008,766)	-	(1,008,766)
4,442,247	-	4,442,247
(36,664)	-	(36,664)
(1,242,634)	-	(1,242,634)
(1,765,485)	-	(1,765,485)
(902,434)	-	(902,434)
(1,252,621)	-	(1,252,621)
(1,766,357)	-	(1,766,357)
-	1,005,927	1,005,927
-	962,494	962,494
-	1,968,421	1,968,421
(1,766,357)	1,968,421	202,064
4,128,208	-	4,128,208
2,134,832	-	2,134,832
3,401,251	-	3,401,251
28,600	-	28,600
10,993	32,496	43,489
7,532	-	7,532
82,722	5,202	87,924
(383,489)	383,489	-
-	(133,867)	(133,867)
9,410,649	287,320	9,697,969
7,644,292	2,255,741	9,900,033
30,067,557	24,596,981	54,664,538
\$ 37,711,849	26,852,722	64,564,571

City of Johnston  
Balance Sheet  
Governmental Funds

June 30, 2004

	Special Revenue		
	General	Urban Renewal Tax Increment Financing	Debt Service
<b>Assets</b>			
Cash and pooled investments	\$ 2,502,777	3,399,518	2,691,990
Cash and investments held by the Library Foundation	-	-	-
Receivables:			
Property tax:			
Delinquent	16,272	-	7,649
Succeeding year	4,214,000	-	1,893,000
Tax increment financing:			
Delinquent	-	2,950	-
Succeeding year	-	2,996,000	-
Accounts	67,917	-	-
Special assessments	-	-	895,367
Accrued interest	1,251	1,657	245
Due from other governments	60,576	-	-
Prepaid expenditures	116,193	-	-
	<b>Total assets</b>	<b>6,400,125</b>	<b>5,488,251</b>
<b>Liabilities and Fund Balances</b>			
Liabilities:			
Accounts payable	\$ 131,397	-	-
Salaries and benefits payable	151,863	-	-
Contracts payable	-	-	-
Due to other governments	9,124	67	-
Deferred revenue:			
Succeeding year property tax	4,214,000	-	1,893,000
Succeeding year tax increment financing	-	2,996,000	-
Other	58,524	-	892,431
Total liabilities	4,564,908	2,996,067	2,785,431
Fund balances:			
Reserved for debt service	-	3,404,058	2,702,820
Unreserved:			
Undesignated:			
Reported in:			
General fund	2,414,078	-	-
Special revenue funds	-	-	-
Capital projects fund	-	-	-
Total fund balances	2,414,078	3,404,058	2,702,820
	<b>Total liabilities and fund balances</b>	<b>6,400,125</b>	<b>5,488,251</b>

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
389,127	1,116,844	10,100,256
-	225,578	225,578
-	-	23,921
-	-	6,107,000
-	-	2,950
-	-	2,996,000
257,678	4,979	330,574
25,696	-	921,063
162	254	3,569
204,921	57,313	322,810
-	-	116,193
<u>877,584</u>	<u>1,404,968</u>	<u>21,149,914</u>
1,342	65,668	198,407
-	-	151,863
42,785	-	42,785
-	1,785	10,976
-	-	6,107,000
-	-	2,996,000
<u>323,298</u>	<u>-</u>	<u>1,274,253</u>
<u>367,425</u>	<u>67,453</u>	<u>10,781,284</u>
-	-	6,106,878
-	-	2,414,078
-	1,337,515	1,337,515
<u>510,159</u>	<u>-</u>	<u>510,159</u>
<u>510,159</u>	<u>1,337,515</u>	<u>10,368,630</u>
<u>877,584</u>	<u>1,404,968</u>	<u>21,149,914</u>

**City of Johnston**

City of Johnston

Reconciliation of the Balance Sheet –  
Governmental Funds to the Statement of Net Assets

June 30, 2004

**Total governmental fund balances (page 21)** \$ 10,368,630

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$67,491,464 and the accumulated depreciation is \$10,773,619. 56,717,845

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 1,265,503

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The assets and liabilities of the Internal Service Fund are included in governmental activities in the Statement of Net Assets. 38,064

Long-term liabilities, including bonds payable, compensated absences and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. (30,678,193)

**Net assets of governmental activities (page 17)** \$ 37,711,849

See notes to financial statements.



City of Johnston

Statement of Revenues, Expenditures  
and Changes in Fund Balances  
Governmental Funds

Year ended June 30, 2004

	<u>Special Revenue</u>		
	General	Urban Renewal Tax Increment Financing	Debt Service
Revenues:			
Property tax	\$ 3,632,504	-	2,014,170
Tax increment financing	-	3,401,251	-
Other city tax	495,704	-	120,662
Licenses and permits	592,293	-	-
Use of money and property	38,939	20,794	15,329
Intergovernmental	284,866	-	-
Charges for service	186,884	-	-
Special assessments	-	-	157,078
Miscellaneous	106,446	-	-
Total revenues	<u>5,337,636</u>	<u>3,422,045</u>	<u>2,307,239</u>
Expenditures:			
Operating:			
Public safety	1,172,050	-	-
Public works	667,080	-	-
Health and social services	36,664	-	-
Culture and recreation	1,211,538	-	-
Community and economic development	671,884	1,822,360	-
General government	883,652	-	-
Debt service	-	-	3,459,911
Capital projects	-	-	-
Total expenditures	<u>4,642,868</u>	<u>1,822,360</u>	<u>3,459,911</u>
Excess (deficiency) of revenues over (under) expenditures	<u>694,768</u>	<u>1,599,685</u>	<u>(1,152,672)</u>
Other financing sources (uses):			
Operating transfers in	16,000	-	2,166,972
Operating transfers out	(116,800)	(2,166,972)	(383,489)
General obligation bonds issued	723,355	-	2,886,784
General obligation notes refunded	-	-	(239,000)
Sale of capital assets	2,500	-	-
Total other financing sources (uses)	<u>625,055</u>	<u>(2,166,972)</u>	<u>4,431,267</u>
Net change in fund balances	1,319,823	(567,287)	3,278,595
Fund balances (deficit) beginning of year, as restated	1,094,255	3,971,345	(575,775)
Fund balances end of year	<u>\$ 2,414,078</u>	<u>3,404,058</u>	<u>2,702,820</u>

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	-	5,646,674
-	-	3,401,251
-	-	616,366
-	-	592,293
1,927	26,520	103,509
754,361	733,896	1,773,123
-	10,208	197,092
7,643	-	164,721
197,043	107,229	410,718
<u>960,974</u>	<u>877,853</u>	<u>12,905,747</u>
-	28,345	1,200,395
-	666,467	1,333,547
-	-	36,664
25,543	123,343	1,360,424
-	21,438	2,515,682
-	-	883,652
-	-	3,459,911
2,341,502	-	2,341,502
<u>2,367,045</u>	<u>839,593</u>	<u>13,131,777</u>
<u>(1,406,071)</u>	<u>38,260</u>	<u>(226,030)</u>
105,000	16,800	2,304,772
-	(21,000)	(2,688,261)
559,861	-	4,170,000
-	-	(239,000)
-	-	2,500
<u>664,861</u>	<u>(4,200)</u>	<u>3,550,011</u>
<u>(741,210)</u>	<u>34,060</u>	<u>3,323,981</u>
<u>1,251,369</u>	<u>1,303,455</u>	<u>7,044,649</u>
<u>510,159</u>	<u>1,337,515</u>	<u>10,368,630</u>

**City of Johnston**

City of Johnston

Reconciliation of the Statement of Revenues, Expenditures and  
Changes in Fund Balances -  
Governmental Funds to the Statement of Activities

Year ended June 30, 2004

**Net change in fund balances - Total governmental funds (page 25)** \$ 3,323,981

**Amounts reported for governmental activities in the Statement of Activities  
are different because:**

Governmental funds report capital outlays as expenditures while governmental activities report depreciation expense to allocate those expenditures over the life of the assets. Capital outlay expenditures and contributed capital assets exceeded depreciation expense in the current year, as follows:

Expenditures for capital assets	\$ 2,626,080	
Capital assets contributed by developers	5,177,822	
Depreciation expense	(1,843,921)	5,959,981

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. 5,032

Because some revenues will not be collected for several months after the City's year end, they are not considered available revenues and are deferred in the governmental funds. 209,442

Proceeds from issuing long-term liabilities provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Assets. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Assets. Current year issues exceeded repayments, as follows:

Issued	(4,170,000)	
Repaid	2,365,000	(1,805,000)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds, as follows:

Compensated absences	(5,484)	
Interest on long-term debt	(3,584)	(9,068)

The Internal Service Fund is used by management to charge the costs of partial self funding of the City's health insurance benefit plan to individual funds. The change in net assets of the Internal Service Fund is reported with governmental activities. (40,076)

**Change in net assets of governmental activities (page 19)** \$ 7,644,292

See notes to financial statements.

**Exhibit G**

City of Johnston  
Statement of Net Assets  
Proprietary Funds

June 30, 2004

	Business-Type Activites			Governmental Activites
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
<b>Assets</b>				
Current assets:				
Cash and pooled investments	\$ 2,217,113	1,996,071	4,213,184	41,344
Receivables (net of allowance for uncollectibles):				
Customer accounts and unbilled usage	265,446	149,895	415,341	-
Accounts	5,033	57,382	62,415	-
Accrued interest	1,394	1,019	2,413	-
Inventories	86,289	-	86,289	-
Prepaid expenses	5,859	5,611	11,470	-
Restricted assets:				
Cash and pooled investments	946,391	480,456	1,426,847	-
Receivables:		-	-	-
Special assessments	42,600	92,079	134,679	-
Accounts	4,179	-	4,179	-
Accrued interest	177	198	375	-
Bond issue costs	10,810	-	10,810	-
Capital assets (net of accumulated depreciation)	13,606,761	11,712,622	25,319,383	-
Des Moines Metropolitan Wastewater Reclamation Authority (WRA) assets:				
Investment in joint venture	-	4,055,608	4,055,608	-
<b>Total assets</b>	<b>17,192,052</b>	<b>18,550,941</b>	<b>35,742,993</b>	<b>41,344</b>

City of Johnston  
Statement of Net Assets  
Proprietary Funds  
June 30, 2004

	Business Type Activites			Governmental Activies
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
<b>Liabilities</b>				
Current liabilities:				
Accounts payable	61,266	29,229	90,495	3,280
Accrued interest payable on general obligation bonds	-	6,649	6,649	-
Salaries and benefits payable	6,277	6,277	12,554	-
Contracts payable	-	1,938	1,938	-
Due to other governments	154,325	891	155,216	-
Compensated absences	4,244	4,244	8,488	-
General obligation bonds	-	135,000	135,000	-
Current liabilities payable from restricted assets:				
Customer deposits	11,455	-	11,455	-
Revenue bonds and notes payable	155,000	100,000	255,000	-
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	-	53,874	53,874	-
Accrued interest payable	20,885	2,705	23,590	-
Long-term liabilities:				
General obligation bonds (net of unamortized discount)	-	1,529,256	1,529,256	-
Revenue bonds and notes payable (net of unamortized discounts)	5,163,912	970,000	6,133,912	-
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	-	470,388	470,388	-
Compensated absences	1,228	1,228	2,456	-
<b>Total liabilities</b>	<b>5,578,592</b>	<b>3,311,679</b>	<b>8,890,271</b>	<b>3,280</b>
<b>Net Assets</b>				
Invested in capital assets, net of related debt	8,287,849	8,978,366	17,266,215	-
Restricted for:				
Revenue note retirement	582,500	268,850	851,350	-
Improvements	140,440	242,231	382,671	-
Unrestricted	2,602,671	5,749,815	8,352,486	38,064
<b>Total net assets</b>	<b>\$ 11,613,460</b>	<b>15,239,262</b>	<b>26,852,722</b>	<b>38,064</b>

See notes to financial statements.

**Exhibit H**

## City of Johnston

Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Funds

Year ended June 30, 2004

	Business Type Activities			Governmental Activities
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Operating revenues:				
Charges for service	\$ 2,136,796	1,061,787	3,198,583	-
Miscellaneous	275,723	18,789	294,512	13,469
Total operating revenues	2,412,519	1,080,576	3,493,095	13,469
Operating expenses:				
Governmental activities:				
Public safety	-	-	-	12,942
Public works	-	-	-	7,239
Culture and recreation	-	-	-	11,587
Community and economic development	-	-	-	4,792
General government	-	-	-	16,985
Business type activities:				
Cost of sales and services	1,555,534	647,244	2,202,778	-
Depreciation	275,800	281,337	557,137	-
Total operating expenses	1,831,334	928,581	2,759,915	53,545
Operating income (loss)	581,185	151,995	733,180	(40,076)
Non-operating revenues (expenses):				
Interest income	16,525	15,971	32,496	-
Interest expense	(266,386)	(127,304)	(393,690)	-
Service connection fees	116,493	229,206	345,699	-
Decrease in joint venture equity	-	(133,867)	(133,867)	-
Miscellaneous	-	5,202	5,202	-
Total non-operating revenues (expenses)	(133,368)	(10,792)	(144,160)	-
Net income (loss) before contributions and transfers	447,817	141,203	589,020	(40,076)
Capital contributions	574,635	708,597	1,283,232	-
Transfers in	-	383,489	383,489	-
Total contributions and transfers	574,635	1,092,086	1,666,721	-
Changes in net assets	1,022,452	1,233,289	2,255,741	(40,076)
Net assets beginning of year, as restated	10,591,008	14,005,973	24,596,981	78,140
Net assets end of year	\$ 11,613,460	15,239,262	26,852,722	38,064

See notes to financial statements.

**City of Johnston**



**Exhibit I**

City of Johnston  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2004

	Business Type Activities			Governmental Activities
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Cash flows from operating activities:				
Cash received from customers, users and employees	\$ 2,211,833	1,053,719	3,265,552	12,469
Cash received from other revenues	273,171	18,789	291,960	-
Cash paid for personal services	(148,807)	(130,473)	(279,280)	-
Cash paid to suppliers	(1,346,643)	(500,743)	(1,847,386)	(52,094)
Net cash provided by (used for) operating activities	989,554	441,292	1,430,846	(39,625)
Cash flows from noncapital financing activities:				
Transfers in	-	383,489	383,489	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(218,323)	(32,075)	(250,398)	-
Special assessments	-	26,423	26,423	-
Service connection fees	115,945	229,206	345,151	-
Des Moines Metropolitan Wastewater Reclamation Authority refund and audit adjustment	-	(14,988)	(14,988)	-
Revenue note proceeds	-	1,170,000	1,170,000	-
General obligation bond proceeds	-	240,000	240,000	-
Principal paid on revenue bonds and notes	(120,000)	(1,282,000)	(1,402,000)	-
Principal paid on general obligation bonds	-	(110,000)	(110,000)	-
Principal paid on general obligation notes	-	(392,000)	(392,000)	-
Interest paid on revenue bonds and notes	(260,407)	(50,300)	(310,707)	-
Interest paid on general obligation bonds	-	(77,784)	(77,784)	-
Principal and interest paid on Des Moines Metropolitan Wastewater Reclamation Authority debt	-	(107,490)	(107,490)	-
Net cash used for capital and related financing activities	(482,785)	(401,008)	(883,793)	-
Cash flows from investing activities:				
Interest on investments	16,257	15,832	32,089	-
Net increase (decrease) in cash and cash equivalents	523,026	439,605	962,631	(39,625)
Cash and cash equivalents beginning of year, as restated	2,640,478	2,036,922	4,677,400	80,969
Cash and cash equivalents end of year	\$ 3,163,504	2,476,527	5,640,031	41,344

City of Johnston  
Statement of Cash Flows  
Proprietary Funds  
Year ended June 30, 2004

	Business Type			Governmental
	Activities			Activities
	Enterprise Funds			Internal
	Water	Sewer	Total	Service Funds
<b>Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:</b>				
Operating income (loss)	\$ 581,185	151,995	733,180	(40,076)
Adjustments to reconcile operating income (loss) to net cash provided by (used for) operating activities:				
Depreciation expense	275,800	281,337	557,137	-
(Increase) decrease in customer accounts and unbilled usage and other accounts receivable	30,965	(8,068)	22,897	-
Decrease in due from other governments	41,519	-	41,519	-
(Increase) in inventories, at cost	(27,552)	-	(27,552)	-
(Increase) decrease in prepaid expenses	282	(1,662)	(1,380)	-
Increase in accounts payable	38,243	8,931	47,174	1,451
Increase in salaries payable	1,263	1,263	2,526	-
Increase in contract payables	-	1,938	1,938	-
Increase (decrease) in compensated absences	(3,005)	5,472	2,467	-
Increase in customer deposits	1,480	-	1,480	-
Increase in due to other governments	49,374	86	49,460	-
Decrease in advance from other funds	-	-	-	(1,000)
Net cash provided by (used for) operating activities	<u>\$ 989,554</u>	<u>441,292</u>	<u>1,430,846</u>	<u>(39,625)</u>
<b>Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:</b>				
Current assets:				
Cash and pooled investments	\$ 2,217,113	1,996,071	4,213,184	41,344
Restricted assets:				
Cash and pooled investments:	946,391	480,456	1,426,847	-
Cash and cash equivalents at year end	<u>\$ 3,163,504</u>	<u>2,476,527</u>	<u>5,640,031</u>	<u>41,344</u>

**Non-cash investing, capital, and financing activities:**

During the year ended June 30, 2004, developers contributed water main and sanitary sewer extensions totaling \$574,635 and \$708,597, respectively, to the Enterprise, Water and Sewer Funds.

See notes to financial statements.

City of Johnston

Notes to Financial Statements

June 30, 2004

**(1) Summary of Significant Accounting Policies**

The City of Johnston is a political subdivision of the State of Iowa located in Polk County. It was first incorporated in 1969 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 of Johnston 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. It also provides water and sewer utilities.

The financial statements of the City of Johnston have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, the City of Johnston 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.

These financial statements present the City of Johnston (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Blended Component Unit – The Johnston Public Library Foundation is an entity which is legally separate from the City, but is so intertwined with the City that it is, in substance, part of the City. The Foundation is reported as part of the City and blended as a Special Revenue Fund. The Foundation has been incorporated under Chapter 504A of the Code of Iowa to receive donations for the benefit of the Johnston Public Library. These donations are used to purchase items which are not included in the City's budget.

Joint Venture – The City also participates in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) (formerly the Des Moines Area Integrated Community Area Wastewater Facilities Project). The WRA, a joint venture, was developed as the result of an agreement between the City of Des Moines and surrounding municipalities.

Jointly Governed Organizations – The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do 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 boards and commissions: Polk County Assessor’s Conference Board, the Metro Waste Authority, Polk County Emergency Management Commission and Polk County Joint E911 Service Board.

The City also participates in the Des Moines Area Transportation Planning Commission, a jointly governed organization established pursuant to Chapter 28E of the Code of Iowa.

B. Basis of Presentation

Government-wide Financial Statements – The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property 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 Net Assets presents the City’s nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories.

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes and other debt attributable to the acquisition, construction or improvement of those assets.

*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 two preceding categories. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues 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 and contributions restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues 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 expenditures, the fixed charges and the capital improvement costs not paid from other funds.

The Special Revenue, Tax Increment Financing Fund is used to account for revenues from the tax authorized by ordinance in the urban renewal districts and used to pay the principal and interest on the general obligation capital loan notes and other indebtedness incurred for urban renewal redevelopment projects.

The Debt Service Fund is used to account for the payment of interest and principal on the City's general long-term debt.

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:

Enterprise:

The Water Fund is used to account for the operation and maintenance of the City's water system.

The Sewer Fund is used to account for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

Additionally, the City reports the following Proprietary Fund:

Internal Service Funds are used to finance and account for services and commodities provided by designated departments or agencies to other departments and agencies of the City.

C. Measurement Focus and Basis of Accounting

The government-wide and proprietary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest are considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the City.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt are reported as other financing sources.

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

The proprietary funds of the City apply all applicable GASB pronouncements, as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from non-operating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the City's Enterprise and Internal Service Funds are charges to customers for sales and services. Operating expenses for Enterprise and Internal Service Funds include the cost of sales and services, administrative expenses and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

The City maintains its financial records on the cash basis. The financial statements of the City are prepared by making memorandum adjusting entries to the cash basis financial records.

D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents – The cash balances of most City funds are pooled in interest-bearing cash accounts and invested in certificates of deposit or in the Iowa Public Agency Investment Trust. Interest on the pooled cash accounts and investments is recognized as revenue when earned and recorded in the General Fund and other funds as provided by law. Investments are stated at fair value except for the investment in the Iowa Public Agency Investment Trust which is valued at amortized cost and non-negotiable certificates of deposit which are stated at cost.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid (including restricted assets) are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, have a maturity date no longer than three months.

Property Tax Receivable, Including Tax Increment Financing – Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Current year property tax receivable represent taxes collected by the County but not remitted to the City at June 30, 2004 and unpaid taxes. The succeeding year property tax receivable represent taxes certified by the City to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the City is required to certify its budget to the County Auditor by March 15 of each year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenues recognized in these funds become due and collectible in September and March of the current fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2002 assessed property valuations; is for the tax accrual period July 1, 2003 through June 30, 2004 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2003.

Special Assessments Receivable – Special assessments receivable represents the amounts due from individuals for work done which benefits their property. These assessments are payable by individuals in not less than ten nor more than twenty annual installments. Each annual installment with interest on the unpaid balance is due on September 30 and is subject to the same interest and penalties as other tax.

Customer Accounts and Unbilled Usage – Accounts receivable are recorded in the Enterprise Funds at the time the service is billed. Unbilled usage for service consumed between periodic scheduled billing dates is estimated and is recognized as revenue in the period in which the service is provided.

Due from and Due to Other Funds – During the course of its operations, the City has numerous transactions between funds. To the extent certain transactions between funds had not been paid or received as of June 30, 2004, balances of interfund amounts receivable or payable have been recorded in the fund financial statements.

Due From Other Governments – Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories – Inventories are valued at cost using the first-in/first-out method. Inventories in the Enterprise Funds consist of material and supplies and are recorded as expenses when consumed rather than when purchased.

Restricted Assets – Funds set aside for payment of Enterprise Fund revenue bonds and notes are classified as restricted assets since their use is restricted by applicable bond and note indentures. Other restricted assets include cash

and investments held by the City for future Enterprise Fund construction costs, customer deposits restricted for application to unpaid customer accounts or for refund to customers and special assessments receivable.

Bond Issue Costs – Bond issue costs associated with revenue bonds and general obligation bonds payable from Enterprise Funds are deferred and amortized over the term of the bonds using the straight-line method. Unamortized bond issue costs are presented as other assets.

Due to Other Governments – Due to other governments represents taxes and other revenues collected by the City and payments for services which will be remitted to other governments.

Capital Assets – Capital assets, which include property, equipment and vehicles and infrastructure assets (e.g. roads, bridges, curbs, gutters, sidewalks and similar items which are immovable and of value only to the government) are reported in the applicable governmental or business type activities columns in the government-wide Statement of Net Assets and in the applicable funds in the proprietary fund Statement of Net Assets. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

Asset Class	Amount
Land, buildings and improvements	\$ 5,000
Equipment and vehicles	5,000
Infrastructure	50,000

Capital assets of the City are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	25-50 years
Improvements other than buildings	10-50 years
Vehicles	5-15 years
Equipment	5-20 years
Infrastructure	10-65 years

Deferred Revenue – Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represents the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of the succeeding year property tax receivable, special assessments receivable and other receivables not collected within sixty days after year end.



Deferred revenue in the Statement of Net Assets consists of succeeding year property tax and tax increment financing receivable that will not be recognized as revenue until the year for which they are levied and the amount of assets that have been recognized, but the related revenue is not yet earned.

Compensated Absences – City employees accumulate a limited amount of earned but unused vacation and compensatory leave hours for subsequent use or for payment upon termination, death or retirement. A liability is recorded when incurred in the government-wide and proprietary fund financial statements. A liability for these amounts is reported in governmental fund financial statements only for employees who have resigned or retired. The compensated absences liability has been computed based on rates of pay in effect at June 30, 2004. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

Long-term Liabilities – In the government-wide and proprietary fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental or business type activities column in the Statement of Net Assets and the proprietary fund Statement of Net Assets.

In the governmental fund financial statements, the face amount of debt issued is reported as other financing sources. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Fund Equity – In the governmental fund financial statements, reservations of fund balance are reported for amounts not available for appropriation or legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

Unrestricted, Designated, Net Assets – The unrestricted net assets of the Internal Service, Health Deductible Claims Fund is designated for anticipated future catastrophic losses to the City.

#### E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.

### **(2) Cash and Pooled Investments**

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$14,292,970 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

### (3) Capital Assets

Capital assets activity for the year ended June 30, 2004 was as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year
<b>Governmental activities:</b>				
Capital assets not being depreciated:				
Land	\$ 2,733,836	-	-	2,733,836
Construction in progress - infrastructure	410,405	2,224,755	(2,635,160)	-
Total capital assets not being depreciated	3,144,241	2,224,755	(2,635,160)	2,733,836
Capital assets being depreciated:				
Buildings	7,190,334	16,390	(180,542)	7,026,182
Improvements other than buildings	98,267	19,144	-	117,411
Equipment and vehicles	3,189,576	380,341	(328,264)	3,241,653
Infrastructure, road network	45,895,789	7,812,982	-	53,708,771
Infrastructure, other	663,611	-	-	663,611
Total capital assets being depreciated	57,037,577	8,228,857	(508,806)	64,757,628
Less accumulated depreciation for:				
Buildings	812,002	145,288	(180,542)	776,748
Improvements other than buildings	18,003	5,624	-	23,627
Equipment and vehicles	1,942,711	309,705	(318,746)	1,933,670
Infrastructure, road network	6,519,351	1,350,123	-	7,869,474
Infrastructure, other	136,919	33,181	-	170,100
Total accumulated depreciation	9,428,986	1,843,921	(499,288)	10,773,619
Total capital assets being depreciated, net	47,608,591	6,384,936	(9,518)	53,984,009
Governmental activities capital assets, net	\$ 50,752,832	8,609,691	(2,644,678)	56,717,845
<b>Business type activities:</b>				
Capital assets not being depreciated:				
Construction in progress	\$ 2,664,369	-	(2,664,369)	-
Capital assets being depreciated:				
Equipment and vehicles	234,490	30,489	-	264,979
Infrastructure, water and sewer network	25,027,235	4,177,231	-	29,204,466
Total capital assets being depreciated	25,261,725	4,207,720	-	29,469,445
Less accumulated depreciation for:				
Equipment and vehicles	78,325	25,995	-	104,320
Infrastructure, water and sewer network	3,514,600	531,142	-	4,045,742
Total accumulated depreciation	3,592,925	557,137	-	4,150,062
Total capital assets being depreciated, net	21,668,800	3,650,583	-	25,319,383
Business type activities capital assets, net	\$ 24,333,169	3,650,583	(2,664,369)	25,319,383

Depreciation expense was charged to functions of the primary government as follows:

Governmental activities:		
Public safety		\$ 44,886
Public works		1,599,139
Culture and recreation		164,953
Community and economic development		8,583
General government		26,360
Total depreciation expense - governmental activities		<u>\$ 1,843,921</u>
Business type activities:		
Water		\$ 275,800
Sewer		281,337
Total depreciation expense - business type activities		<u>\$ 557,137</u>

**(4) Changes in Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2004 is as follows:

	Balance Beginning of Year (as restated, note 13)	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 28,575,000	4,170,000	2,365,000	30,380,000	3,350,000
Compensated absences	184,720	248,073	242,589	190,204	116,269
Total	<u>\$ 28,759,720</u>	<u>4,418,073</u>	<u>2,607,589</u>	<u>30,570,204</u>	<u>3,466,269</u>
Business type activities:					
General obligation bonds	\$ 1,533,538	240,718	110,000	1,664,256	(1) 1,095,000
Revenue bonds and notes	6,615,850	1,175,062	1,402,000	6,388,912	(2) 255,000
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	606,136	-	81,874	524,262	53,874
Compensated absences	8,477	22,196	19,729	10,944	8,488
Total	<u>\$ 8,764,001</u>	<u>1,437,976</u>	<u>1,613,603</u>	<u>8,588,374</u>	<u>1,412,362</u>

(1) Bonds were sold at a discount; unamortized discount at June 30, 2004 totaled \$5,744.

(2) Bonds were sold at a discount; unamortized discount at June 30, 2004 totaled \$76,088.

Governmental Activities:

General obligation bonds/notes have been issued for both governmental and business type activities. The portion of unmatured general obligation bonds/notes accounted for in the governmental activities and serviced by the Debt Service Fund totaled \$30,380,000 as of June 30, 2004. The portion of unmatured general obligation bonds expected to be repaid from business type activities and accounted for in the Enterprise Funds totaled \$1,670,000 at June 30, 2004. In compliance with statutory requirements, funds pledged and available in the Enterprise Funds to service general obligation bonds are recorded as reimbursements to the Debt Service Fund in the City's accounting system.

Fifteen issues of unmatured general obligation bonds/notes payable from the Debt Service Fund bear interest at rates ranging from 1.85% to 9.00% and mature in varying annual amounts ranging from \$10,000 to \$905,000, with final maturities due in the year ending June 30, 2017.

Details of general obligation bonds/notes payable at June 30, 2004 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2004
General obligation bonds/notes:						
Essential corporate purpose	Dec 1, 1994	8.75-9.00%	Jun 1, 2005	\$10,000-15,000	95,000	15,000
Essential corporate purpose	Nov 1, 1996	4.90-5.25	Jun 1, 2012	60,000-255,000	2,070,000	1,595,000
Essential corporate purpose	Jun 1, 1997	4.00-5.25	Jun 1, 2012	65,000-80,000	740,000	215,000
Refunding bonds	Jun 1, 1997	4.00-5.10	Jun 1, 2008	125,000-280,000	2,130,000	810,000
Essential corporate purpose	Aug 1, 1998	4.00-4.50	Jun 1, 2013	225,000-370,000	3,780,000	2,835,000
Essential corporate purpose	Aug 1, 1998	5.90-6.35	Jun 1, 2008	35,000-50,000	340,000	190,000
Refunding bonds	Dec 1, 1998	4.10-4.35	Jun 1, 2012	85,000-150,000	1,070,000	900,000
Essential corporate purpose	Feb 1, 1999	4.00-4.50	Jun 1, 2014	65,000-160,000	1,785,000	1,325,000
Essential corporate purpose	Oct 1, 1999	4.80-5.20	Jun 1, 2015	85,000-170,000	1,800,000	1,440,000
General and essential corporate purpose	Apr 15, 2000	4.75-5.35	Jun 1, 2015	465,000-905,000	9,155,000	7,695,000
Essential corporate purpose	Mar 1, 2001	3.65-4.80	Jun 1, 2016	175,000-320,000	3,360,000	2,995,000
Essential corporate purpose	Dec 1, 2001	3.00-4.40	Jun 1, 2016	115,000-190,000	2,060,000	1,825,000
Essential corporate purpose	Oct 1, 2002	2.00-3.95	Jun 1, 2017	265,000-430,000	4,655,000	4,390,000
Refunding notes	Oct 1, 2003	1.85-3.90	Jun 1, 2013	20,000-30,000	265,000	245,000
Essential corporate purpose and refunding notes	May 15, 2004	2.00-4.00	Jun 1, 2014	225,000-680,000	3,905,000	3,905,000
Total governmental activities						<u>\$ 30,380,000</u>

A summary of the annual general obligation bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	Principal	Interest	Total
2005	\$ 2,675,000	1,311,430	3,986,430
2006	3,025,000	1,204,584	4,229,584
2007	2,815,000	1,086,710	3,901,710
2008	2,755,000	974,452	3,729,452
2009	2,565,000	859,183	3,424,183
2010-2014	13,245,000	2,422,297	15,667,297
2015-2019	3,300,000	223,906	3,523,906
Total	<u>\$ 30,380,000</u>	<u>8,082,562</u>	<u>38,462,562</u>

Business Type Activities:

Three issues of unmatured general obligation bonds totaling \$1,670,000 and payable from the Enterprise Fund are outstanding at June 30, 2004. These bonds bear interest at rates ranging from 2.00% to 5.25% and mature in varying annual amounts ranging from \$50,000 to \$470,000, with final maturities due in the year ending June 30, 2015.

Three issues of unmatured revenue bonds/notes totaling \$6,465,000 are outstanding at June 30, 2004. These bonds/notes bear interest at rates ranging from 1.50% to 5.40% and mature in varying annual amounts ranging from \$50,000 to \$470,000, with the final maturities due in the year ending June 30, 2021.

The resolutions providing for the issuance of the water revenue bonds and the sewer revenue capital loan notes issued under a loan agreement between the City of Johnston, the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank N.A. include the following provisions:

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts for the purpose of making the bond and note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to separate water and sewer reserve accounts until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying bond and note principal and interest payments when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$500 to separate water and sewer improvement accounts shall be made until balances of \$10,000 each have been accumulated. These accounts are restricted for the purpose of paying bond and note principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget and for capital improvements to the system.
- (e) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bonds and notes falling due in the same year.

During the year ended June 30, 2004, the City was in compliance with the revenue bond/note provisions. Details of general obligation bonds and revenue bonds/notes payable from Enterprise Funds at June 30, 2004 are as follows:

	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2004
General obligation bonds:						
Essential corporate purpose	Jun 1, 1997	4.00-5.25%	Jun 1, 2012	\$65,000-165,000	1,565,000	1,070,000
Essential corporate purpose	Oct 1, 1999	4.80-5.20	Jun 1, 2015	20,000-40,000	450,000	360,000
Essential corporate purpose and refunding bonds	May 15, 2004	2.00-4.00	Jun 1, 2014	25,000-30,000	240,000	240,000
						<u>1,670,000</u>
Revenue bonds/notes:						
Water	Jun 1, 1997	4.50-5.40	Jun 1, 2013	55,000-120,000	1,245,000	865,000
Water	Sep 1, 2001	4.30-4.90	Jun 1, 2021	50,000-470,000	4,580,000	4,530,000
Sewer	Oct 1, 2003	1.50-3.65	Jun 1, 2013	100,000-135,000	1,170,000	1,070,000
						<u>6,465,000</u>
Des Moines Metropolitan Wastewater Reclamation Authority	Various	Various	Various	46,905-78,239	1,036,106	524,262
Total business type activities						<u>\$ 16,794,262</u>

A summary of the annual general obligation bonds and revenue bond/note principal and interest requirements to maturity by year is as follows:

Year Ending June 30,	General Obligation Bonds			Revenue Bonds/Notes		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 135,000	81,295	216,295	\$ 255,000	287,788	542,788
2006	165,000	74,385	239,385	285,000	279,098	564,098
2007	175,000	66,925	241,925	335,000	267,439	602,439
2008	180,000	58,736	238,736	360,000	253,713	613,713
2009	190,000	50,141	240,141	375,000	238,714	613,714
2010-2014	785,000	105,698	890,698	2,005,000	938,583	2,943,583
2015-2019	40,000	2,080	42,080	1,930,000	507,823	2,437,823
2020-2024	-	-	-	920,000	67,997	987,997
Total	\$ 1,670,000	439,260	2,109,260	\$ 6,465,000	2,841,155	9,306,155

#### Des Moines Metropolitan Wastewater Reclamation Authority Bonds/Notes

The Des Moines Metropolitan Wastewater Reclamation Authority (WRA), (formerly the Integrated Community Area (ICA)), as an autonomous entity, was developed as the result of a joint venture agreement between the City of Des Moines and surrounding municipalities established for the primary purpose of planning, constructing, operating and managing sewer related facilities in order to solve the adjoining municipalities waste water problems. The City of Des Moines was designated as the operating agency for the ICA and, as such, is responsible for accounting for all expenditures relating to these projects.

The WRA issues long-term debt and the City of Johnston is responsible for a portion of the debt issued and will annually pay a portion of the bonds/notes and interest due. A schedule of the City's portion of future principal and interest payments for that debt is as follows:

Year Ending June 30,	Des Moines Metropolitan Wastewater Reclamation Authority Revenue Bonds and Notes		
	Principal	Interest	Total
2005	\$ 53,874	24,291	78,165
2006	56,377	21,785	78,162
2007	58,910	19,163	78,073
2008	61,847	16,421	78,268
2009	64,588	13,544	78,132
2010-2014	202,690	25,869	228,559
2015-2018	25,976	2,314	28,290
Total	\$ 524,262	123,387	647,649

During the year ended June 30, 2004, the City paid \$107,490 for principal and interest pursuant to this agreement.

#### Current Note Refundings

On October 1, 2003, the City issued \$265,000 in general obligation corporate purpose and refunding notes, a portion of which was used to currently refund \$239,000 of general obligation capital loan notes dated July 1, 1992. The principal on these notes was called on December 10, 2003 and the notes were redeemed in their entirety by June 30, 2004.

The City reduced its total debt service payments by approximately \$9,909 and obtained an economic gain (difference between the present values of the debt service payments on the old and net debt) of approximately \$6,612.

On October 1, 2003, the City issued \$1,170,000 of sewer revenue bonds which were used to currently refund the \$1,182,000 sewer revenue notes dated July 1, 1992. The principal on these notes was called on December 1, 2003 and the notes were redeemed in their entirety by June 30, 2004. The City reduced its total debt service payments by approximately \$93,307 and obtained an economic gain of approximately \$70,414.

On May 15, 2004, the City issued \$4,145,000 in general obligation refunding bonds, a portion of which will be used to currently refund \$1,285,000 of general obligation notes dated June 1, 1997 and \$810,000 of general obligation notes dated June 1, 1997. The principal on these notes will be called on July 1, 2004. The City will reduce its total debt service payments by approximately \$320,856 and \$29,228, respectively, and obtained an economic gain of approximately \$275,694 and \$27,754, respectively.

**(5) Investment in Joint Venture**

The City is a member of the Des Moines Metropolitan Wastewater Reclamation Authority (WRA), a joint venture established in accordance with the provisions of Chapter 28E of the Code of Iowa for the purpose of planning, constructing, operating and managing sewer-related facilities in order to solve members' waste water problems. Pursuant to the joint venture agreement, the City of Des Moines is the operating agency and, as such, provides the management and each member participates in governing the joint venture. Each WRA member participates at varying percentages in each project phase based on the member's respective benefit. More than 60 percent of the total program cost of \$225,000,000 was funded by state and federal grants. The City's share of the project has been funded through a combination of general obligation bonds, sewer revenue bonds and several financing agreements with the WRA based on specific construction phases of the project.

The City retains an ownership interest in the project based on existing contributions of capital during phases of the project. The City's interest at June 30, 2004 is approximately 1.52 percent. The City is accounting for its investment in the joint venture under the "equity method" of accounting. Under the equity method of accounting, the investment in the joint venture is recorded at cost and is adjusted annually for the City's share of the joint venture's net income or loss.

The WRA is operated on a cost reimbursement basis whereby participating communities share in the costs of operations as set forth in the WRA Agreements. Contract payments made to the WRA for operations and maintenance by the City for the year ended June 30, 2004 totaled \$356,586.

Selected information of the WRA as of and for the year ended June 30, 2004 is as follows:

Results of operations:	
Operating revenues	\$ 9,134,149
Operating loss	(6,425,005)
Non-operating revenue	329,352
Net loss	(6,095,653)
Financial position:	
Total assets	\$ 272,519,611
Total liabilities	7,447,216
Total net assets	265,072,395

The financial statements for the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) can be obtained from the operating agency, the City of Des Moines.

**(6) Interfund Transfers**

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

Transfer to	Transfer from	Amount
General	Special Revenue: Library	\$ 16,000
Debt Service	Special Revenue: Urban Renewal Tax Increment Financing	2,166,972
Capital Projects	General	100,000
	Special Revenue: Southwest Park District	5,000
		105,000
Nonmajor Special Revenue: Senior Citizens	General	1,800
Community Improvement	General	15,000
		16,800
Enterprise: Sewer	Debt Service	383,489
Total		\$ 2,688,261

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

**(7) Development Agreements**

The City has entered into various development agreements for urban renewal projects. The agreements require the City to rebate portions of the incremental tax paid by the developer in exchange for the construction of buildings and certain infrastructure improvements by the developers. Certain agreements also require the developer to certify specific employment requirements are met. The total to be paid by the City under the agreements is not to exceed \$11,744,791.

The City has rebated a total of \$4,323,817 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2004 was \$7,420,974.

**(8) Forgivable Loans**

The City has entered into four private development agreements for urban renewal projects. The agreements provide the City will make forgivable loans to developers in exchange for the construction of certain minimum improvements located within the City's TIF districts. The loans are amortized and are forgiven in annual amounts provided the developers comply with all requirements stipulated within the agreements. At June 30, 2004, the City had loaned \$382,570 under the agreements and forgiven \$136,500 of the loans, leaving a balance of \$246,070.



**(9) 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.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively. For the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2004, 2003 and 2002 were \$150,945, \$143,275 and \$132,275, respectively, equal to the required contributions for each year.

**(10) Service Agreements**

The City has agreements with the following governmental entities to provide services for its citizens:

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Agreement	Purpose
City of Urbandale	Library services
Johnston Community School District	Community education program
Polk County	Roadway maintenance

**(11) Industrial Development Revenue Bonds**

The City has issued a total of \$13,430,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$10,265,000 is outstanding at June 30, 2004. The bonds and related interest are payable solely from the revenues received by tenants of the properties and the bond principal and interest do not constitute liabilities of the City.

**(12) Risk Management**

The City of Johnston 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 deductible 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. No significant reductions in insurance have occurred.

The Internal Service, Health Deductible Claims Fund was established to account for the partial self funding of the City's health insurance benefit plan. The plan is funded by the City and is administered by Seabury and Smith, Inc. The agreement is subject to automatic renewal. The City assumes liability for deductibles up to \$800 per individual for single coverage and \$1,600 per family for family coverage.

Monthly payments of service fees and plan contributions to the Internal Service, Health Deductible Claims Fund are recorded as expenditures from the operating funds. Under the administrative services agreement, monthly payments of service fees and claims processed are paid to Seabury and Smith, Inc. from the Internal Service, Health Deductible Claims Fund. The City did not make a contribution to the fund for the year ended June 30, 2004.

Amounts payable from the Internal Service, Health Deductible Claims Fund at June 30, 2004 total \$3,280, which is for reported but not paid claims. In accordance with Chapter 509A.15 of the Code of Iowa, and with approval from the State Commissioner of Insurance, the City's health insurance plan qualifies as a mini-self-funded plan and is exempt from the requirements to have an annual actuarial opinion. Therefore, a liability for claims incurred but not reported (IBNR) was estimated but not actuarially determined. A reconciliation of changes in the aggregate liabilities for claims for the current year is as follows:

Unpaid claims at July 1, 2003	\$ 1,829
Incurred claims	40,031
Payments on claims during the fiscal year	<u>38,580</u>
Unpaid claims at June 30, 2004	<u>\$ 3,280</u>

**(13) Accounting Change and Restatements**

Governmental Accounting Standards Board Interpretation No. 6, Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements, was implemented for the year ended June 30, 2004. The interpretation modifies when compensated absence liabilities are recorded under the modified accrual basis of accounting.

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

The government-wide financial statements report the City's governmental and business type activities. Beginning net assets for governmental activities has been restated to include capital assets and the changes in assets and liabilities at July 1, 2003 resulting from the conversion to the accrual basis of accounting.

The effects of the accounting change and other restatements are summarized as follows:

	Total
Governmental activities:	
Net assets June 30, 2003, as previously reported:	
Governmental fund types	\$ 6,511,717
Expendable trust funds	715,943
	7,227,660
GASB Interpretation 6 adjustments	46,620
Reclassification of Capital Projects Fund, water and sewer activity	(229,631)
Net assets July 1, 2003, as restated for governmental funds	7,044,649
GASB 34 adjustments:	
Capital assets, net of accumulated depreciation of \$9,428,986	50,752,832
Long-term liabilities	(28,759,720)
Deferral of long-term assets	1,056,061
Interest payable	(104,405)
Internal service fund	78,140
Net assets July 1, 2003, as restated	\$ 30,067,557
Business type activities:	
Net assets June 30, 2003, as previously reported	\$ 23,102,813
Additional contributed capital identified by the City of \$1,795,424, less accumulated depreciation of \$530,887	1,264,537
Reclassification of Capital Projects Fund, water and sewer activity	229,631
Net assets July 1, 2003, as restated	\$ 24,596,981

**(14) Deficit Net Assets**

The Internal Service, Flexible Spending Fund had deficit cash and net assets of \$135 at June 30, 2004. The deficit will be eliminated through future operating fund contributions.

**(15) Subsequent Event**

In October 2004, the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) authorized the issuance of \$26,850,000 of sewer revenue bonds, series 2004A, and \$66,830,000 of sewer revenue bonds, series 2004B. The City of Johnston will share in a portion of this new debt.

**Required Supplementary Information**

City of Johnston

Budgetary Comparison Schedule of  
Receipts, Disbursements and Changes in Balances -  
Budget and Actual (Cash Basis) -  
Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Property tax	\$ 5,646,103	-	5,646,103
Tax increment financing	3,411,944	-	3,411,944
Other city tax	636,602	-	636,602
Licenses and permits	591,450	-	591,450
Use of money and property	103,611	32,088	135,699
Intergovernmental	1,670,391	41,519	1,711,910
Charges for service	278,444	3,566,189	3,844,633
Special assessments	171,906	26,423	198,329
Miscellaneous	353,263	330,906	684,169
Total receipts	<u>12,863,714</u>	<u>3,997,125</u>	<u>16,860,839</u>
Disbursements:			
Public safety	1,156,724	-	1,156,724
Public works	1,294,197	-	1,294,197
Health and social services	57,693	-	57,693
Culture and recreation	1,331,959	-	1,331,959
Community and economic development	2,538,775	-	2,538,775
General government	898,701	-	898,701
Debt service	5,108,830	-	5,108,830
Capital projects	2,481,350	229,631	2,710,981
Business type activities	-	2,946,746	2,946,746
Total disbursements	<u>14,868,229</u>	<u>3,176,377</u>	<u>18,044,606</u>
Excess (deficiency) of receipts over (under) disbursements	(2,004,515)	820,748	(1,183,767)
Other financing sources, net	<u>4,129,273</u>	<u>141,883</u>	<u>4,271,156</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	2,124,758	962,631	3,087,389
Balances beginning of year	<u>8,201,076</u>	<u>4,677,400</u>	<u>12,878,476</u>
Balances end of year	<u>\$ 10,325,834</u>	<u>5,640,031</u>	<u>15,965,865</u>

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Net	Budgeted Amounts		Final to Actual Variance
		Original	Final	
-	5,646,103	5,643,411	5,643,411	2,692
-	3,411,944	3,326,861	3,326,861	85,083
-	636,602	663,634	668,634	(32,032)
-	591,450	377,516	473,746	117,704
1,148	134,551	73,414	119,965	14,586
-	1,711,910	2,098,875	1,853,073	(141,163)
-	3,844,633	3,504,750	3,469,148	375,485
-	198,329	88,086	205,817	(7,488)
54,947	629,222	91,475	796,371	(167,149)
56,095	16,804,744	15,868,022	16,557,026	247,718
-	1,156,724	1,358,525	2,075,216	918,492
-	1,294,197	1,650,766	1,653,651	359,454
-	57,693	76,000	76,000	18,307
35,452	1,296,507	1,227,666	1,395,997	99,490
-	2,538,775	2,543,641	2,679,928	141,153
-	898,701	905,966	967,388	68,687
-	5,108,830	5,076,570	5,310,744	201,914
-	2,710,981	2,615,558	2,935,030	224,049
-	2,946,746	3,049,511	3,300,159	353,413
35,452	18,009,154	18,504,203	20,394,113	2,384,959
20,643	(1,204,410)	(2,636,181)	(3,837,087)	2,632,677
-	4,271,156	4,654,594	2,151,568	2,119,588
20,643	3,066,746	2,018,413	(1,685,519)	4,752,265
204,935	12,673,541	10,085,752	12,673,541	-
225,578	15,740,287	12,104,165	10,988,022	4,752,265

City of Johnston  
 Budget to GAAP Reconciliation  
 Required Supplementary Information  
 Year ended June 30, 2004

	Governmental Funds			Proprietary Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 12,863,714	42,033	12,905,747	3,997,125	1,162,599	5,159,724
Expenditures/expenses	14,868,229	(1,736,452)	13,131,777	3,176,377	110,095	3,287,472
Net	(2,004,515)	1,778,485	(226,030)	820,748	1,052,504	1,872,252
Other financing sources, net	4,129,273	(579,262)	3,550,011	141,883	241,606	383,489
Beginning fund balances/net assets, as restated	8,201,076	(1,156,427)	7,044,649	4,677,400	19,919,581	24,596,981
Ending fund balances/net assets	\$ 10,325,834	42,796	10,368,630	5,640,031	21,213,691	26,852,722

See accompanying independent auditor's report.

City of Johnston

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except blended component units. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures. Encumbrances are not recognized on the cash basis budget and appropriations lapse at year end.

Formal and legal budgetary control is based upon 9 major classes of disbursements known as functions, not by fund or fund type. These 9 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, Special Revenue Funds, Debt Service Fund, Capital Projects Fund and 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, two budget amendments increased budgeted disbursements by \$1,889,910. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements did not exceed the amounts budgeted.



**City of Johnston**

**Other Supplementary Information**

City of Johnston  
 Combining Balance Sheet  
 Nonmajor Special Revenue Funds

June 30, 2004

	Road Use Tax	Police	Law Enforcement Block Grant	East Park District	Central Park District	Northridge Park District
<b>Assets</b>						
Cash and pooled investments:						
City officials	\$ 587,072	58,702	1,035	39,918	6,298	62,670
Library Foundation	-	-	-	-	-	-
Receivables:						
Accounts	-	-	-	-	-	-
Accrued interest	-	30	-	8	3	32
Due from other governments	57,313	-	-	-	-	-
<b>Total assets</b>	<b>\$ 644,385</b>	<b>58,732</b>	<b>1,035</b>	<b>39,926</b>	<b>6,301</b>	<b>62,702</b>
<b>Liabilities and Fund Equity</b>						
Liabilities:						
Accounts payable	\$ 64,235	-	-	-	-	-
Due to other governments	1,785	-	-	-	-	-
Total liabilities	66,020	-	-	-	-	-
Fund equity:						
Fund balances:						
Unreserved, undesignated	578,365	58,732	1,035	39,926	6,301	62,702
<b>Total liabilities and fund equity</b>	<b>\$ 644,385</b>	<b>58,732</b>	<b>1,035</b>	<b>39,926</b>	<b>6,301</b>	<b>62,702</b>

See accompanying independent auditor's report.

North Park District Trust	Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Sidewalk	Library Foundation	Total
42,243	198,058	47,457	2,510	26,199	20,528	24,154	-	1,116,844
-	-	-	-	-	-	-	225,578	225,578
-	-	-	-	4,864	115	-	-	4,979
21	104	21	-	13	10	12	-	254
-	-	-	-	-	-	-	-	57,313
<b>42,264</b>	<b>198,162</b>	<b>47,478</b>	<b>2,510</b>	<b>31,076</b>	<b>20,653</b>	<b>24,166</b>	<b>225,578</b>	<b>1,404,968</b>
-	-	-	535	-	898	-	-	65,668
-	-	-	-	-	-	-	-	1,785
-	-	-	535	-	898	-	-	67,453
<b>42,264</b>	<b>198,162</b>	<b>47,478</b>	<b>1,975</b>	<b>31,076</b>	<b>19,755</b>	<b>24,166</b>	<b>225,578</b>	<b>1,337,515</b>
<b>42,264</b>	<b>198,162</b>	<b>47,478</b>	<b>2,510</b>	<b>31,076</b>	<b>20,653</b>	<b>24,166</b>	<b>225,578</b>	<b>1,404,968</b>

City of Johnston

Combining Statement of Revenues, Expenditures and  
Changes in Fund Balances  
Nonmajor Special Revenue Funds

Year ended June 30, 2004

	Road Use Tax	Police	Law Enforcement Block Grant	East Park District	Central Park District
Revenues:					
Use of money and property	\$ -	378	14	72	37
Intergovernmental	733,896	-	-	-	-
Charges for service	-	10,208	-	-	-
Miscellaneous	-	-	936	33,952	-
Total revenues	733,896	10,586	950	34,024	37
Expenditures:					
Operating:					
Public safety	-	23,929	4,416	-	-
Public works	666,467	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	-
Total expenditures	666,467	23,929	4,416	-	-
Excess (deficiency) of revenues over (under) expenditures	67,429	(13,343)	(3,466)	34,024	37
Other financing sources (uses):					
Operating transfers in (out)	-	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	67,429	(13,343)	(3,466)	34,024	37
Fund balances beginning of year, as restated	510,936	72,075	4,501	5,902	6,264
Fund balances end of year	\$ 578,365	58,732	1,035	39,926	6,301

See accompanying independent auditor's report.

**Schedule 2**

Northridge Park District	North Park District Trust	Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Sidewalk	Library Foundation	Total
369	246	1,233	421	11	18,797	3,644	150	1,148	26,520
-	-	-	-	-	-	-	-	-	733,896
-	-	-	-	-	-	-	-	-	10,208
-	-	-	8,485	1,884	3,000	4,025	-	54,947	107,229
369	246	1,233	8,906	1,895	21,797	7,669	150	56,095	877,853
-	-	-	-	-	-	-	-	-	28,345
-	-	-	-	-	-	-	-	-	666,467
-	-	-	83,926	3,965	-	-	-	35,452	123,343
-	-	-	-	-	-	21,438	-	-	21,438
-	-	-	83,926	3,965	-	21,438	-	35,452	839,593
369	246	1,233	(75,020)	(2,070)	21,797	(13,769)	150	20,643	38,260
-	-	-	(5,000)	1,800	(16,000)	15,000	-	-	(4,200)
369	246	1,233	(80,020)	(270)	5,797	1,231	150	20,643	34,060
62,333	42,018	196,929	127,498	2,245	25,279	18,524	24,016	204,935	1,303,455
62,702	42,264	198,162	47,478	1,975	31,076	19,755	24,166	225,578	1,337,515

**Schedule 3**

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City of Johnston  
Combining Statement of Net Assets  
Internal Service Funds

June 30, 2004

	Flexible Spending	Health Deductible Claims	Total
<b>Assets</b>			
Current assets:			
Cash and pooled investments	\$ (135)	41,479	41,344
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	-	(3,280)	(3,280)
<b>Net Assets</b>			
Unrestricted	\$ (135)	38,199	38,064

See accompanying independent auditor's report.

## City of Johnston

Combining Statement of Revenues, Expenses and  
Changes in Fund Net Assets  
Internal Service Funds

Year ended June 30, 2004

	Flexible Spending	Health Deductible Claims	Total
Operating revenues:			
Miscellaneous:			
Contributions from operating funds	\$ 12,779	690	13,469
Operating expenses:			
Governmental activities:			
Public safety	2,104	10,838	12,942
Public works	737	6,502	7,239
Culture and recreation	5,519	6,068	11,587
Community and economic development	457	4,335	4,792
General government	6,148	10,837	16,985
Total operating expenses	14,965	38,580	53,545
Operating loss	(2,186)	(37,890)	(40,076)
Net assets beginning of year	2,051	76,089	78,140
Net assets end of year	\$ (135)	38,199	38,064

See accompanying independent auditor's report.



**Schedule 5**

City of Johnston  
Combining Statement of Cash Flows  
Internal Service Funds

Year ended June 30, 2004

	Flexible Spending	Health Deductible Claims	Total
Cash flows from operating activities:			
Cash received from employees	\$ 11,779	690	12,469
Cash paid to suppliers	(14,965)	(37,129)	(52,094)
Net cash used by operating activities and net decrease in cash and cash equivalents	(3,186)	(36,439)	(39,625)
Cash and cash equivalents beginning of year	3,051	77,918	80,969
Cash and cash equivalent end of year	\$ (135)	41,479	41,344
<b>Reconciliation of operating loss to net cash used by operating activities:</b>			
Operating loss	(2,186)	(37,890)	(40,076)
Adjustments to reconcile operating loss to net cash used by operating activities:			
Increase in accounts payable	-	1,451	1,451
(Decrease) in advance from other funds	(1,000)	-	(1,000)
Net cash used by operating activities	\$ (3,186)	(36,439)	(39,625)

See accompanying independent auditor's report.

City of Johnston  
 Schedule of Revenues by Source  
 and Expenditures by Function – All Governmental Funds

For the Last Two Years

	Modified Accrual Basis	
	2004	2003
Revenues:		
Property tax	\$ 5,646,674	4,746,228
Tax increment financing	3,401,251	4,261,942
Other city tax	616,366	617,209
Licenses and permits	592,293	460,251
Use of money and property	103,509	88,204
Intergovernmental	1,773,123	1,077,389
Charges for service	197,092	139,542
Special assessments	164,721	578,576
Miscellaneous	410,718	419,570
	<u>\$ 12,905,747</u>	<u>12,388,911</u>
Expenditures:		
Operating:		
Public safety	\$ 1,200,395	1,262,863
Public works	1,333,547	1,172,312
Health and social service	36,664	50,566
Culture and recreation	1,360,424	1,207,358
Community and economic development	2,515,682	1,841,218
General government	883,652	889,667
Debt service	3,459,911	3,085,438
Capital projects	2,341,502	3,187,030
	<u>\$ 13,131,777</u>	<u>12,696,452</u>

See accompanying independent auditor's report.

**Schedule 7**

City of Johnston  
Schedule of Expenditures of Federal Awards  
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency or Pass-through Number	Program Expenditures
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-3827(604)--70-77	\$ 809,032
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 03-04, Task 17	1,565
State and Community Highway Safety	20.600	PAP 04-04, Task 17	2,692
			<u>4,257</u>
Safety Incentives to Prevent Operation of Motor Vehicles by Intoxicated Persons	20.605	PAP 04-163, Task 39	<u>4,400</u>
Total			<u>\$ 817,689</u>

**Basis of Presentation** – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Johnston and is presented on the modified accrual basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditor's report.

**Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting**

**City of Johnston**



**OFFICE OF AUDITOR OF STATE**  
**STATE OF IOWA**

David A. Vaudt, CPA  
Auditor of State

State Capitol Building  
Des Moines, Iowa 50319-0004

Telephone (515) 281-5834 Facsimile (515) 242-6134

Independent Auditor's Report on Compliance  
and on Internal Control over Financial Reporting

To the Honorable Mayor and  
Members of the City Council:

We have audited the financial statements of the City of Johnston, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated November 12, 2004. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Johnston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, 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 that are required to be reported under Government Auditing Standards.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. There were no prior year statutory comments.

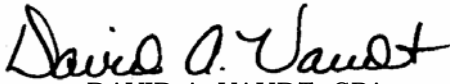
Internal Control Over Financial Reporting

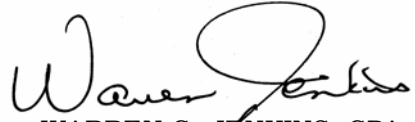
In planning and performing our audit, we considered the City of Johnston's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial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

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable conditions described above are material weaknesses. Prior year reportable conditions have been resolved except for items II-B-04, II-D-04 and II-F-04.

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 Johnston and other parties to whom the City of Johnston 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 Johnston 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.

  
DAVID A. VAUDT, CPA  
Auditor of State

  
WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2004

**Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance**



**City of Johnston**



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Independent Auditor's Report on Compliance with Requirements Applicable  
to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and  
Members of the City Council:

Compliance

We have audited the compliance of the City of Johnston, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. The City of Johnston's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Johnston's management. Our responsibility is to express an opinion on City of Johnston's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Johnston's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Johnston's compliance with those requirements.

In our opinion, the City of Johnston complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004.

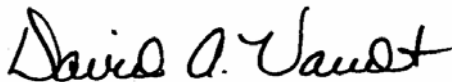
Internal Control Over Compliance

The management of the City of Johnston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Johnston's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

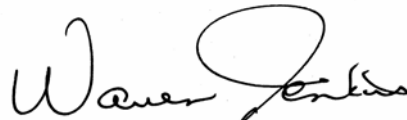
We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over compliance that, in our judgment, could adversely affect the City of Johnston's ability to administer the major federal program in accordance with the applicable requirements of laws, regulations, contracts, and grants. The reportable condition is described in the accompanying Schedule of Findings and Questioned Costs as item III-A-04.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with the applicable requirements of laws, regulations, contracts and grants that would be material in relation to the major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

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 Johnston and other parties to whom the City of Johnston may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA  
Auditor of State



WARREN G. JENKINS, CPA  
Chief Deputy Auditor of State

November 12, 2004

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part I: Summary of the Independent Auditor's Results:**

- (a) Unqualified opinions were issued on the financial statements.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, none of which are considered to be material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements. No material weaknesses in internal control over compliance were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed an audit finding which is required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Johnston did not qualify as a low-risk auditee.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part II: Findings Related to the Financial Statements:**

II-A-04 Segregation of Duties – A listing of cash and checks received in the mail is not prepared periodically and traced to recorded receipts.

Recommendation – All incoming mail should be opened by an employee who is not authorized to make entries to the accounting records. This employee should prepare a listing of cash and checks received on a periodic basis. Later, the listing should be compared to the cash receipt records.

Response – A list of cash and checks will be prepared and reconciled monthly.

Conclusion – Response accepted.

II-B-04 Capital Assets – Capital assets are not compared to recorded assets by each department annually and are not independently verified, at least on a test basis. Deletions are not always supported by written documentation and authorization.

Recommendation – Department heads should examine assets annually and reconcile to recorded assets. Any differences should be investigated and resolved. Capital assets should be reviewed by an independent person, at least on a test basis, annually. A system that provides written documentation for deletions should be developed. Information should include appropriate details to insure the assets are properly deleted from the capital asset records.

Response – Capital assets will be reviewed by an independent person. Forms will be developed to facilitate additions and deletions.

Conclusion – Response accepted.

II-C-04 Library – The receipt record and deposits are not reconciled.

Recommendation – Recorded receipts should be reconciled to deposits. Any differences should be investigated and resolved in a timely manner.

Response – Procedures to reconcile deposits will be implemented.

Conclusion – Response accepted.

II-D-04 Building Permits – One individual has control over processing approved building permits, collecting and receipting building permit fees. The City does not account for the permits issued in numeric sequence.

Recommendation – Approved permits should be maintained or recorded by a person independent of the collection and receipt of permit fees. Permits should be issued and accounted for in numeric sequence.

Response – Responsibilities in the building department will be reviewed and reassigned to enable compliance.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Conclusion – Response accepted.

II-E-04 Inventory – Inventory was not counted at June 30, 2004. Pricing for inventory was not updated to current values.

Recommendation – To improve financial accountability, inventory should be counted at June 30 and current pricing for items in stock should be determined and documented.

Response – Inventory will be counted and updated with current values on or about June 30 each year.

Conclusion – Response accepted.

II-F-04 Information Systems – The following weaknesses in the City’s computer based systems were noted:

The City does not have written policies for:

- Password privacy and confidentiality.
- Ensuring only software licensed to the City is installed on computers.

Also, the City does not have a disaster recovery plan for its computer based systems.

Recommendation – The City should develop written policies addressing the above items in order to improve the City’s control over computer based systems. In addition, a disaster recovery plan for computer based systems should be developed.

Response – Written policies for computer operations will be established. A disaster recovery plan will be developed.

Conclusion – Response accepted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part III: Findings and Questioned Costs For Federal Awards:**

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**REPORTABLE CONDITION:**

**CFDA Number 20.205: Highway Planning and Construction**

**Pass-through Agency Number: STP-U-3827(604)-70-77**

**Federal Award Year: 2004**

**U.S. Department of Transportation**

**Passed through the Iowa Department of Transportation**

III-A-04 Compliance Monitoring – The City is required to comply with Federal requirements pertaining to Davis-Bacon, Reporting and Special Tests and Provisions for materials testing. The City relied on its engineering firm to perform Davis-Bacon testing and prepare requests for reimbursement and did not have procedures in place to monitor compliance. The City did not sign request for reimbursement reports. Also, support was provided for materials testing for only two of eighteen suppliers.

Recommendation – The City should establish procedures to monitor and ensure compliance with applicable Federal requirements.

Response and Corrective Action Planned – We will immediately improve procedures and monitor specific responsibilities. We will also obtain copies of all information from our consulting engineers that document compliance with the Davis-Bacon Act.

Conclusion – Response accepted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

**Part IV: Other Findings Related to Required Statutory Reporting:**

- IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004.
- IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 did not exceed the amounts budgeted.
- IV-C-04 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- IV-D-04 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-04 Business Transactions – No business transactions between the City and City officials or employees were noted.
- IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-04 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- IV-I-04 Revenue Bonds/Notes – The City has complied with the requirements of the water revenue bond and sewer revenue capital loan note resolutions.
- IV-J-04 Economic Development – The City paid \$10,000 to the Johnston Economic Development Corporation, \$6,000 to the Johnston Chamber of Commerce and \$5,000 to the Greater Des Moines Partnership which may not be appropriate expenditures of public funds. The Council obtains documentation of how the funds are used to accomplish economic development activities. However, the Council does not evaluate and document the public purpose of these expenditures.

According to an Attorney General's opinion dated August 28, 1986, government financing of economic development may, in appropriate circumstances, serve a public purpose. The opinion advises the governing body should evaluate the public benefits to be obtained and discusses specific criteria to be considered in documenting the public purpose.

Recommendation - The Council should evaluate and document the public purpose served by these expenditures prior to authorizing further payments.

Response – In the future, a resolution with public purpose stated will be prepared for Council approval.

Conclusion – Response accepted.



City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

IV-K-04 Purchase of Shirts with City Logo – On April 19, 2004, the City adopted an Employee Work Clothing Policy which established the expenditure of public funds for a public purpose. The City’s policy allows for the use of public funds to purchase shirts with the City’s logo which maintains employee morale, promotes the community and its growth and identifies City employees when attending meetings and interacting with the public. This policy covers employees not covered by the collective bargaining agreements.

During the year ended June 30, 2004, certain purchases for shirts were made that exceeded the number of shirts allowed per employee under the Employee Work Clothing Policy. It is unclear whether these employees are covered under the collective bargaining agreements.

Recommendation – The City should determine the appropriate policy for these employees and establish procedures to comply with that policy.

Response – We will review the clothing policy and more clearly define the method that the coverage is applied as well as who is covered by the policy.

Conclusion – Response accepted.

IV-L-04 Other Information Required by Bond Resolution

Insurance – The following insurance policies were in force at June 30, 2004:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Automobile coverage:	1,000,000	4/1/05
	Liability	100,000	4/1/05
	Uninsured motorists	100,000	4/1/05
	Underinsured motorists	Lesser of	4/1/05
	Comprehensive/collision	cash value	4/1/05
		or cost of repair 5,000	
	Auto medical payments		
EMC Insurance Companies	Blanket: Building and personal property	13,902,297	4/1/05
	Property in the open building	54,121	4/1/05
EMC Insurance Companies	General liability coverage:	2,000,000	4/1/05
	General aggregate	2,000,000	4/1/05
	Products aggregate	1,000,000	4/1/05
	Personal/advertising injury	1,000,000	4/1/05
	Each occurrence	5,000	4/1/05
	Damage to rented property Medical expense		
EMC Insurance Companies	Commercial crime	15,000	4/1/05

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Inland marine:		
	Contractors equipment	669,723	4/1/05
	Rented contractor equipment	50,000	4/1/05
	Miscellaneous property	47,269	4/1/05
	Data processing - equipment	106,596	4/1/05
EMC Insurance Companies	Commercial umbrella:		
	Each occurrence	5,000,000	4/1/05
	General aggregate	5,000,000	4/1/05
	Retained limit	10,000	4/1/05
EMC Insurance Companies	Workers' compensation:		
	Bodily injury by accident	500,000	4/1/05
	Bodily injury by disease each employee	500,000	4/1/05
	Bodily injury by disease policy limit	500,000	4/1/05
EMC Insurance Companies	Public employee dishonesty - per employee	200,000	4/1/05
	Forgery or alteration	10,000	4/1/05
EMC Insurance Companies	Linebacker:		
	Each loss	1,000,000	4/1/05
	Aggregate	1,000,000	4/1/05

Statistical Information

Description	Amount
Sewer customers served at June 30, 2004	3,028

Sewer rates in effect at June 30, 2004:

Service availability fee per month of \$3.50 plus \$3.23 per 1,000 gallons of water used

For those contributors who contribute wastewater, the strength of which is greater than normal domestic sewage, a surcharge in addition to the normal charge is collected as follows:

Biochemical oxygen demand	\$0.35 per pound
Suspended solids	\$0.22 per pound

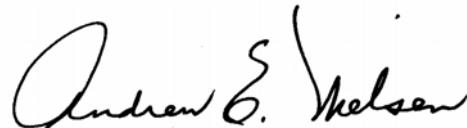
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City of Johnston

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager  
Katherine L. Rupp, CPA, Senior Auditor II  
Jennifer Campbell, CPA, Senior Auditor  
Kathleen S. Caggiano, Staff Auditor  
Scott P. Boisen, Assistant Auditor  
Candice R. Meester, Assistant Auditor  
Sarah E. Rauscher, Assistant Auditor

A handwritten signature in black ink that reads "Andrew E. Nielsen". The signature is written in a cursive style with a large initial "A" and "N".

Andrew E. Nielsen, CPA  
Deputy Auditor of State