



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE December 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's revenues totaled \$19,354,305 for the year ended June 30, 2005. Revenues included \$6,757,903 from property tax, \$243,119 from hotel/motel tax, \$3,301,694 from tax increment financing, \$4,756,377 from charges for service, \$1,011,028 from operating grants, contributions and restricted interest, \$2,780,719 from capital grants, contributions and restricted interest, \$142,358 from unrestricted investment earnings and \$361,107 from other general revenues.

Expenses for City operations totaled \$14,060,533. Expenses included \$3,319,596 for public works, \$1,974,315 for community and economic development and \$1,789,706 for culture and recreation. Expenses for business type activities totaled \$3,188,668.

The City also reported a special item for the contribution of the City's \$3,531,346 equity interest in the Des Moines Metropolitan Wastewater Reclamation Authority to the Authority upon its reorganization.

A copy of the report is available for review in the City Finance Director's office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.

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CITY OF JOHNSTON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2005

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City of Johnston

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
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	Resigned
Tim Pearson	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, 2005, 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.

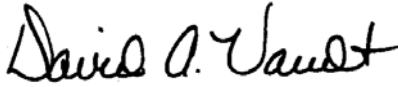
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain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

In our opinion, 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, 2005, 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.

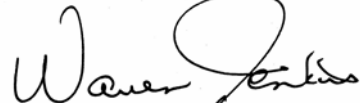
In accordance with Government Auditing Standards, we have also issued our report dated October 7, 2005 on our consideration of the City of Johnston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 15 and 54 through 57 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of 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 two years ended June 30, 2004 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 6 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in 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

October 7, 2005

MANAGEMENT'S DISCUSSION AND ANALYSIS

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, 2005. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2005 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds remained consistent from fiscal 2004 to fiscal 2005. Property tax increased approximately \$868,000, while tax increment financing and intergovernmental revenues decreased approximately \$100,000 and \$845,000, respectively.
- Governmental fund expenditures increased 8%, or approximately \$1,095,000, in fiscal 2005 over fiscal 2004. Public safety and public works expenditures increased approximately \$1,140,000 and \$626,000, respectively. Community and economic development and capital projects expenditures decreased approximately \$528,000 and \$597,000, respectively.
- The City's net assets increased 2.8%, or approximately \$1,762,000, from June 30, 2004 to June 30, 2005. Of this amount, the net assets of the governmental activities increased approximately \$2,204,000 and the net assets of the business type activities decreased by approximately \$442,000.
- On July 1, 2004, the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) was reorganized as a separate legal entity. While the entity is still a joint venture, the City no longer owns an equity interest in the Authority. Pursuant to the new WRA agreement, the City's equity interest of \$3,531,346 at July 1, 2004 was contributed to the WRA.

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 consist 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.

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 and the sanitary sewer system. 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 and Internal Service Funds. The Enterprise Funds report services for which the City charges customers for the service it provides. The Internal Service Funds are an accounting device used to accumulate and allocate health deductible and flex benefit costs internally among the City's various functions. 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 Internal Service Funds include the Flexible Spending and Health Deductible Claims Funds.

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 described in Note 12 on page 50, beginning governmental activities net assets decreased by \$1,475,675 to correct prior year infrastructure and related accumulated depreciation. Beginning governmental activities and business type activities net assets increased and decreased, respectively, by \$635,000 to reclassify general obligation bonds payable from the governmental activities to the business type activities. To enhance comparability, all amounts presented for fiscal year 2004 in this discussion and analysis were restated, where applicable, to reflect these changes as if the changes had been made in the prior year.

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.

	Condensed Statement of Net Assets						
	(Expressed in Thousands)						
	Governmental Activities		Business type Activities		Total		Per Cent Change
	June 30,		June 30,		June 30,		June 30,
2005	2004	2005	2004	2005	2004	2004-2005	
Current and other assets	\$ 27,325	21,191	7,260	10,424	34,585	31,615	9.4%
Capital assets	57,147	55,242	26,151	25,319	83,298	80,561	3.4%
Total assets	84,472	76,433	33,411	35,743	117,883	112,176	5.1%
Long-term liabilities	35,596	29,935	7,102	8,915	42,698	38,850	9.9%
Other liabilities	9,801	9,627	533	610	10,334	10,237	0.9%
Total liabilities	45,397	39,562	7,635	9,525	53,032	49,087	8.0%
Net assets:							
Invested in capital assets, net of related debt	31,068	28,203	18,777	16,631	49,845	44,834	11.2%
Restricted	5,619	6,246	1,525	1,235	7,144	7,481	-4.5%
Unrestricted	2,388	2,422	5,474	8,352	7,862	10,774	-27.0%
Total net assets	\$ 39,075	36,871	25,776	26,218	64,851	63,089	2.8%

Net assets of governmental activities increased from fiscal 2004 by approximately \$2,204,000, or 6%. Net assets of business type activities decreased from fiscal 2004 by approximately \$442,000, or 1.7%. 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 \$7,862,000 at the end of this year.

	Change in Net Assets								
	(Expressed in Thousands)								
	Governmental		Business type				Total		Per Cent
	Activities		Activities				Change		
	June 30,		June 30,		June 30,		June 30,		
2005	2004	2005	2004	2005	2004	2004-2005			
Revenues:									
Program revenues:									
Charges for service	\$ 902	854	\$ 3,853	3,839	\$ 4,755	4,693	1.3%		
Operating grants, contributions and restricted interest	1,011	1,145	-	-	1,011	1,145	-11.7%		
Capital grants, contributions and restricted interest	1,811	5,031	970	1,283	2,781	6,314	-56.0%		
General revenues:									
Property tax levied for:									
General purposes	4,664	3,898	-	-	4,664	3,898	19.7%		
Debt service	2,094	2,135	-	-	2,094	2,135	-1.9%		
Hotel/motel tax	243	230	-	-	243	230	5.7%		
Tax increment financing	3,302	3,401	-	-	3,302	3,401	-2.9%		
Grants and contributions not restricted to a specific purpose	-	29	-	-	-	29	-100.0%		
Unrestricted investment earnings	45	11	97	33	142	44	222.7%		
Gain on sale of capital assets	4	8	-	-	4	8	-50.0%		
Miscellaneous	70	82	287	5	357	87	310.3%		
Total revenues	14,146	16,824	5,207	5,160	19,353	21,984	-12.0%		
Program expenses:									
Public safety	1,540	1,256	-	-	1,540	1,256	22.6%		
Public works	3,320	2,727	-	-	3,320	2,727	21.7%		
Health and social service	46	37	-	-	46	37	24.3%		
Culture and recreation	1,790	1,499	-	-	1,790	1,499	19.4%		
Community and economic development	1,974	2,513	-	-	1,974	2,513	-21.4%		
General government	917	904	-	-	917	904	1.4%		
Interest on long-term debt	1,285	1,337	-	-	1,285	1,337	-3.9%		
Water	-	-	2,194	2,097	2,194	2,097	4.6%		
Sewer	-	-	994	1,056	994	1,056	-5.9%		
Total expenses	10,872	10,273	3,188	3,153	14,060	13,426	4.7%		
Change in net assets	3,274	6,551	2,019	2,007	5,293	8,558	-38.2%		
Operating transfers, net	(1,070)	252	1,070	(252)	-	-	0.0%		
Decrease in joint venture equity	-	-	-	(134)	-	(134)	-100.0%		
Special item - contribution to joint venture	-	-	(3,531)	-	(3,531)	-	-100.0%		
Net assets beginning of year, as restated	36,871	30,068	26,218	24,597	63,089	54,665	15.4%		
Net assets end of year	\$ 39,075	36,871	\$ 25,776	26,218	\$ 64,851	63,089	2.8%		

While the tax rate decreased approximately .7%, tax revenue increased approximately \$868,000. This was a result of increased taxable valuations. Specifically, building permits continue to be issued at a steady pace. Tax increment financing valuation of \$37,804,746 has been released over the past two years which increased the taxable valuation used to calculate the general fund tax levy.

Overall revenues decreased approximately \$2.6 million, or 12%, from FY04 to FY05. Capital grants, contributions and restricted interest decreased due to a decrease in contributions for infrastructure. Grants and contributions not restricted to a specific purpose decreased primarily due to a decrease in contributions received for the Fire Department in FY05.

Unrestricted investment earnings increased due to rising interest rates and miscellaneous revenue increased in FY05 due to reclassifying amounts previously reported as charges for service.

Expenses increased overall by approximately \$600,000, or 4.7%. Expenses for public safety increased primarily due to operation of the Fire Department for the entire fiscal year versus only a partial year in FY04. Expenses for public works increased due to the cost of a special census which increased the City's population by 57% and will result in increased state funding for roadway improvements. Expenses for health and social services increased due to assistance with home repairs for qualified low and moderate income residents and expenses for culture and recreation increased due to increases in salaries for the library, parks and trails and Crown Point staff. Expenses for community and economic development decreased in FY05 due to a decrease in the amounts paid for development inspections which are now handled by City staff.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Johnston completed the year, its governmental funds reported a combined fund balance of \$16.0 million, an increase of \$5.6 million above last years total of \$10.4 million. The following are the major reasons for the changes in fund balances of the governmental funds from the prior year.

The General Fund balance decreased by \$600,899 to \$1,813,179. While revenues increased approximately \$700,000, expenditures increased approximately \$1,095,000. This increase was, in part, due to the purchase of a fire truck in FY05. Expenditures in the Public Works Department also increased for road, bridge and sidewalk repairs.

The Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund balance increased by \$1,131,891 to \$4,535,949 during the fiscal year. Construction by various developers was delayed in the City's four urban renewal districts which reduced the amount of TIF funds paid out.

The Debt Service Fund balance decreased by \$1,961,771 to \$741,049. On July 1, 2004, general obligation notes totaling \$2,095,000 were called and redeemed.

The Capital Projects Fund balance increased \$7,477,806 to \$7,979,965. Bond proceeds of \$8,995,000 were received on June 9, 2005. The bonds were issued for NW 70th Avenue/Merle Hay Road street improvements, NW 62nd Avenue street improvements and Pointe Vista storm drainage improvements. Improvements to the median along Merle Hay Road were completed. The construction of a parking lot in Johnston Commons was completed. Construction of a restroom in Creekside Park was started. Trail extensions continued in various subdivisions.

The non-major Special Revenue Fund balance decreased \$465,325 to \$872,191. Two asphalt street overlay projects were completed and four vehicles were purchased.

Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2005 with a \$12,286,155 net asset balance compared to the prior year ending net asset balance of \$11,613,460.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment system, ended fiscal 2005 with a \$13,489,724 net asset balance compared to the prior year ending net asset balance of \$14,604,262.

Net Assets in both the Water and Sewer Funds increased 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. Net assets of the Sewer Fund decreased overall due to the reorganization of the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) and the corresponding contribution of the City's equity interest to the WRA.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on August 16, 2004 and resulted in an increase in public safety and public works disbursements related to the purchase of a fire truck and storm sewer construction. The second amendment was approved on May 16, 2005 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 \$57,147,043 (net of accumulated depreciation) at June 30, 2005. Capital assets for business type activities totaled \$26,151,219 (net of accumulated depreciation) at June 30, 2005. See note 3 to the financial statements for more information about the city's capital assets.

Capital Assets, net of Depreciation								
(expressed in thousands)								
	Governmental Activities		Business type Activities		Total		Per Cent Change	
	June 30,		June 30,		June 30,		June 30,	
	2005	2004	2005	2004	2005	2004	2004-2005	
Land	\$ 2,852	2,734	8	-	2,860	2,734	4.6%	
Construction in progress	1,370	-	623	-	1,993	-	100.0%	
Buildings	6,254	6,249	-	-	6,254	6,249	0.1%	
Improvements other than buildings	278	93	-	-	278	93	198.9%	
Equipment and vehicles	2,061	1,308	144	161	2,205	1,469	50.1%	
Infrastructure, road network	43,742	44,364	-	-	43,742	44,364	-1.4%	
Infrastructure, sewer network	-	-	25,376	25,158	25,376	25,158	0.9%	
Infrastructure, other	590	494	-	-	590	494	19.4%	
Total	\$ 57,147	55,242	26,151	25,319	83,298	80,561	3.4%	

The major capital outlays for governmental activities during the year included NW 62nd Avenue west of NW 86th Street improvements, NW 70th Avenue/Merle Hay Road Street improvements and trail construction. Proceeds of a 2005B bond issue are available to fund the street improvements.

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

Long-Term Debt

At June 30, 2005, the City had \$35,365,000 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$7,373,973 at June 30, 2005. Additional information about the City's long-term debt is presented in note 4 to the financial statements.

	Outstanding Long-Term Obligations (expressed in thousands)						
	Governmental		Business type		Total		Per Cent
	Activities		Activities				Change
	June 30,		June 30,		June 30,		June 30,
	2005	2004	2005	2004	2005	2004	2004-2005
General obligation bonds/notes	\$ 35,365	29,745	1,235	2,299	36,600	32,044	14.2%
Revenue bonds/notes	-	-	6,139	6,389	6,139	6,389	-3.9%
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	-	-	-	524	-	524	-100.0%
Total	\$ 35,365	29,745	7,374	9,212	42,739	38,957	9.7%

During the year ended June 30, 2005, the City issued a total of \$8,995,000 in general obligation bonds, Series 2005B. The bonds issued were to fund two major street reconstruction projects and a small storm drainage project.

Funding for the NW Beaver Drive Sanitary Sewer Project was secured with State Revolving Fund revenue bonds, Series 2005A of \$3,535,000. At June 30, 2005, the City had not yet drawn down any of the bond proceeds.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several factors affected decisions made by the City in setting its fiscal 2006 budget.

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 48.46% to 47.96%. Commercial properties are not subject to a roll back in FY06. Based on current valuations, the change in the roll back reduced the taxable valuation in Johnston by \$2,900,000 for residential. Commercial valuation increased by \$2,300,000. This valuation adjustment produced a net loss in property tax revenue of \$6,474.

The City has lost \$32,844,900 in commercial valuation when the Mansions at Hemingway and the Winwood Apartments successfully got their classifications changed from commercial to residential. Based on the FY05 property tax rate of \$38.59, their property tax obligation is reduced from \$1,267,785 to \$607,759. The City's portion of the property taxes at \$10.81/\$1,000 is reduced from \$355,053 to \$170,248.

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 FY06 budget, we were able to release \$26,097,000 in TIF valuation. The total amount of valuation that has been released to the tax rolls in two years is \$63,901,746.

The release of TIF valuation allowed the City to levy \$10.74278/\$1,000 for fiscal 2006 compared to \$10.80991/\$1,000 for fiscal 2005.

The General Fund is projected to end fiscal 2006 with a fund balance of approximately \$923,000.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2006 are provided below:

General Fund levy	\$ 7.76730
Debt Service levy	<u>2.97548</u>
Total	<u>\$ 10.74278</u>

In June 2005, a special census was begun. The results of the special census established the City's population at 13,596, an increase of 57% from the 2000 census of 8,649. The City will receive an increase in funding from the state to improve roadways.

The installation of automated water meters will continue through fiscal 2006 in the Enterprise, Water Fund.

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

- The City of Johnston is working with the City of Grimes related to the construction and operation of a joint outdoor aquatic facility. The voters of the Grimes approved issuing bonds for an aquatic facility. The voters of Johnston did not. The proposal to issue bonds will be put to the voters of Johnston again in February 2006.
- NW 70th Avenue reconstruction from NW Beaver Drive to NW 86th Street is estimated to cost \$18.3 million. The City recently received \$7.1 million in funds from the reauthorization of the transportation bill (formerly TEA-21). The City has also been approved for \$3.5 million in Federal Surface Transportation Program (STP) funding awarded by the Des Moines Area MPO in fiscal 2005, 2006 and 2008. Construction of phase 1, beginning at the NW 70th Avenue/ Merle Hay Road area is scheduled to begin in the summer of 2005. The main entrance to Camp Dodge is served by NW 70th Avenue.
- NW 62nd Avenue reconstruction, west of NW 86th Street approximately 5,500 feet, is a continuation of improvements on NW 62nd Ave from Merle Hay Road west to NW 86th St. Residential development and a new school in the area have necessitated the upgrade of NW 62nd Ave. The total cost is estimated to be \$9,657,235.

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.

City of Johnston

Basic Financial Statements

Exhibit A

City of Johnston
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 16,284,557	4,624,318	20,908,875
Cash and investments held by Library Foundation	205,820	-	205,820
Receivables:			
Property tax:			
Delinquent	18,065	-	18,065
Succeeding year	6,593,000	-	6,593,000
Tax increment financing:			
Delinquent	1,793	-	1,793
Succeeding year	2,345,000	-	2,345,000
Customer accounts and unbilled usage	-	524,785	524,785
Accounts	233,658	71,379	305,037
Special assessments	1,331,484	-	1,331,484
Accrued interest	25,389	11,230	36,619
Due from other governments	150,824	3,980	154,804
Inventories	-	280,922	280,922
Prepaid expenses	135,388	12,447	147,835
Restricted assets:			
Cash and pooled investments	-	1,598,385	1,598,385
Receivables:			
Special assessments	-	117,759	117,759
Accounts	-	4,055	4,055
Accrued interest	-	762	762
Bond issue costs	-	9,609	9,609
Capital assets (net of accumulated depreciation)	52,925,302	25,520,208	78,445,510
Capital assets not being depreciated	4,221,741	631,011	4,852,752
Total assets	84,472,021	33,410,850	117,882,871

City of Johnston
Statement of Net Assets
June 30, 2005

	Governmental Activities	Business Type Activities	Total
Liabilities			
Accounts payable	187,093	22,273	209,366
Accrued interest payable	122,702	3,560	126,262
Salaries and benefits payable	193,632	9,760	203,392
Contracts payable	354,568	35,808	390,376
Due to other governments	740	141,216	141,956
Deferred revenue:			
Succeeding year property tax	6,593,000	-	6,593,000
Succeeding year tax increment financing	2,345,000	-	2,345,000
Other	4,225	-	4,225
Liabilities payable from restricted assets:			
Customer deposits	-	12,835	12,835
Revenue notes	-	285,000	285,000
Accrued interest	-	22,877	22,877
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	2,605,000	115,000	2,720,000
Compensated absences	142,869	11,679	154,548
Portion due or payable after one year:			
General obligation bonds/notes	32,760,000	1,120,000	33,880,000
Revenue notes	-	5,853,973	5,853,973
Compensated absences	87,749	990	88,739
Total liabilities	45,396,578	7,634,971	53,031,549
Net Assets			
Invested in capital assets, net of related debt	31,068,074	18,777,246	49,845,320
Restricted for:			
Debt service	4,747,151	-	4,747,151
Revenue note retirement	-	881,592	881,592
Improvements	-	642,817	642,817
Other purposes	872,191	-	872,191
Unrestricted	2,388,027	5,474,224	7,862,251
Total net assets	\$ 39,075,443	25,775,879	64,851,322

See notes to financial statements.

City of Johnston
Statement of Activities
Year ended June 30, 2005

Functions/Programs:	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 1,540,591	72,605	41,441	18,811
Public works	3,319,596	37,996	731,359	946,704
Health and social services	45,633	-	-	-
Culture and recreation	1,789,706	38,921	141,970	168,407
Community and economic development	1,974,315	706,460	72,487	-
General government	916,981	46,592	-	-
Interest on long-term debt	1,285,043	-	23,771	677,073
Total governmental activities	<u>10,871,865</u>	<u>902,574</u>	<u>1,011,028</u>	<u>1,810,995</u>
Business type activities:				
Water	2,194,157	2,146,085	-	403,934
Sewer	994,511	1,707,718	-	565,790
Total business type activities	<u>3,188,668</u>	<u>3,853,803</u>	<u>-</u>	<u>969,724</u>
Total	<u>\$ 14,060,533</u>	<u>4,756,377</u>	<u>1,011,028</u>	<u>2,780,719</u>

General Revenues:

Property and other city tax levied for:	
General purposes	
Debt service	
Hotel/motel tax	
Tax increment financing	
Unrestricted investment earnings	
Gain on sale of capital assets	
Miscellaneous	
Transfers	
Special item - contribution to joint venture	
Total general revenues, transfers and special item	
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		
Governmental Activities	Business Type Activities	Total
(1,407,734)	-	(1,407,734)
(1,603,537)	-	(1,603,537)
(45,633)	-	(45,633)
(1,440,408)	-	(1,440,408)
(1,195,368)	-	(1,195,368)
(870,389)	-	(870,389)
(584,199)	-	(584,199)
(7,147,268)	-	(7,147,268)
-	355,862	355,862
-	1,278,997	1,278,997
-	1,634,859	1,634,859
(7,147,268)	1,634,859	(5,512,409)
4,663,948	-	4,663,948
2,093,955	-	2,093,955
243,119	-	243,119
3,301,694	-	3,301,694
44,777	97,581	142,358
4,500	-	4,500
69,544	287,063	356,607
(1,070,000)	1,070,000	-
-	(3,531,346)	(3,531,346)
9,351,537	(2,076,702)	7,274,835
2,204,269	(441,843)	1,762,426
36,871,174	26,217,722	63,088,896
\$ 39,075,443	25,775,879	64,851,322

City of Johnston
Balance Sheet
Governmental Funds

June 30, 2005

	Special Revenue		
	General	Urban Renewal Tax Increment Financing	Debt Service
Assets			
Cash and pooled investments	\$ 1,835,741	4,525,665	734,338
Cash and investments held by the Library Foundation	-	-	-
Receivables:			
Property tax:			
Delinquent	12,937	-	5,128
Succeeding year	4,619,000	-	1,974,000
Tax increment financing:			
Delinquent	-	1,793	-
Succeeding year	-	2,345,000	-
Accounts	46,677	-	-
Special assessments	-	-	1,289,630
Accrued interest	4,861	8,491	1,258
Due from other governments	93,684	-	-
Prepaid expenditures	135,388	-	-
Total assets	\$ 6,748,288	6,880,949	4,004,354
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 53,782	-	-
Salaries and benefits payable	193,632	-	-
Contracts payable	19,494	-	-
Due to other governments	740	-	-
Deferred revenue:			
Succeeding year property tax	4,619,000	-	1,974,000
Succeeding year tax increment financing	-	2,345,000	-
Other	48,461	-	1,289,305
Total liabilities	4,935,109	2,345,000	3,263,305
Fund balances:			
Reserved for debt service	-	4,535,949	741,049
Unreserved:			
Undesignated:			
Reported in:			
General fund	1,813,179	-	-
Special revenue funds	-	-	-
Capital projects fund	-	-	-
Total fund balances	1,813,179	4,535,949	741,049
Total liabilities and fund balances	\$ 6,748,288	6,880,949	4,004,354

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
8,313,571	720,530	16,129,845
-	205,820	205,820
-	-	18,065
-	-	6,593,000
-	-	1,793
-	-	2,345,000
186,861	120	233,658
41,854	-	1,331,484
9,984	795	25,389
-	57,140	150,824
-	-	135,388
<u>8,552,270</u>	<u>984,405</u>	<u>27,170,266</u>
15,623	112,214	181,619
-	-	193,632
335,074	-	354,568
-	-	740
-	-	6,593,000
-	-	2,345,000
213,608	-	1,551,374
<u>564,305</u>	<u>112,214</u>	<u>11,219,933</u>
-	-	5,276,998
-	-	1,813,179
-	872,191	872,191
7,987,965	-	7,987,965
<u>7,987,965</u>	<u>872,191</u>	<u>15,950,333</u>
<u>8,552,270</u>	<u>984,405</u>	<u>27,170,266</u>

City of Johnston

City of Johnston

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

June 30, 2005

Total governmental fund balances (page 23) \$ 15,950,333

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 \$69,681,400 and the accumulated depreciation is \$12,534,357. 57,147,043

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 1,547,149

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. 149,238

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. (35,718,320)

Net assets of governmental activities (page 21) \$ 39,075,443

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2005

	<u>Special Revenue</u>		
	General	Urban Renewal Tax Increment Financing	Debt Service
Revenues:			
Property tax	\$ 4,393,242	-	2,121,855
Tax increment financing	-	3,301,694	-
Other city tax	513,823	-	-
Licenses and permits	641,324	-	-
Use of money and property	91,675	67,189	31,417
Intergovernmental	152,196	-	-
Charges for service	124,188	-	-
Special assessments	-	-	277,995
Miscellaneous	127,978	-	3,043
Total revenues	<u>6,044,426</u>	<u>3,368,883</u>	<u>2,434,310</u>
Expenditures:			
Operating:			
Public safety	2,298,915	-	-
Public works	933,124	-	-
Health and social services	45,633	-	-
Culture and recreation	1,535,560	-	-
Community and economic development	701,762	1,257,763	-
General government	914,988	-	-
Debt service	-	-	3,653,793
Capital projects	-	-	-
Total expenditures	<u>6,429,982</u>	<u>1,257,763</u>	<u>3,653,793</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(385,556)</u>	<u>2,111,120</u>	<u>(1,219,483)</u>
Other financing sources (uses):			
Operating transfers in	-	-	979,229
Operating transfers out	(221,918)	(979,229)	(1,070,000)
General obligation bonds issued	-	-	336,450
Premium on general obligation bonds	-	-	3,570
General obligation bonds refunded	-	-	(991,537)
Sale of capital assets	6,575	-	-
Total other financing sources (uses)	<u>(215,343)</u>	<u>(979,229)</u>	<u>(742,288)</u>
Net change in fund balances	(600,899)	1,131,891	(1,961,771)
Fund balances beginning of year	2,414,078	3,404,058	2,702,820
Fund balances end of year	<u>\$ 1,813,179</u>	<u>4,535,949</u>	<u>741,049</u>

See notes to financial statements.

Capital Projects	Nonmajor Special Revenue	Total
-	-	6,515,097
-	-	3,301,694
-	-	513,823
-	-	641,324
14,082	26,391	230,754
39,971	735,117	927,284
-	-	124,188
23,705	-	301,700
129,930	48,186	309,137
<u>207,688</u>	<u>809,694</u>	<u>12,865,001</u>

-	41,977	2,340,892
-	1,026,291	1,959,415
-	-	45,633
-	44,109	1,579,669
-	28,324	1,987,849
-	-	914,988
-	-	3,653,793
1,744,667	-	1,744,667
<u>1,744,667</u>	<u>1,140,701</u>	<u>14,226,906</u>

<u>(1,536,979)</u>	<u>(331,007)</u>	<u>(1,361,905)</u>
--------------------	------------------	--------------------

356,235	17,145	1,352,609
-	(151,462)	(2,422,609)
8,658,550	-	8,995,000
-	-	3,570
-	-	(991,537)
-	-	6,575
<u>9,014,785</u>	<u>(134,317)</u>	<u>6,943,608</u>
7,477,806	(465,324)	5,581,703
510,159	1,337,515	10,368,630
<u>7,987,965</u>	<u>872,191</u>	<u>15,950,333</u>

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, 2005

Net change in fund balances - Total governmental funds (page 27) \$ 5,581,703

**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	\$ 2,929,240	
Capital assets contributed by developers and others	991,417	
Depreciation expense	<u>(2,013,709)</u>	1,906,948

In the Statement of Activities, the loss on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the sale as an increase in financial resources. (2,075)

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. 281,646

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	(8,995,000)	
Repaid	<u>3,375,000</u>	(5,620,000)

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	(40,414)	
Accrued interest on long-term debt	<u>(14,713)</u>	(55,127)

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. 111,174

Change in net assets of governmental activities (page 21) \$ 2,204,269

See notes to financial statements.

City of Johnston
Statement of Net Assets
Proprietary Funds
June 30, 2005

	Business-Type Activities			Governmental Activities
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Assets				
Current assets:				
Cash and pooled investments	\$ 2,209,147	2,415,171	4,624,318	154,712
Receivables:				
Customer accounts and unbilled usage	354,859	169,926	524,785	-
Accounts	12,900	58,479	71,379	-
Accrued interest	5,715	5,515	11,230	-
Due from other governments	3,980	-	3,980	-
Inventories	280,922	-	280,922	-
Prepaid expenses	6,236	6,211	12,447	-
Restricted assets:				
Cash and pooled investments	978,917	619,468	1,598,385	-
Receivables:				
Special assessments	42,600	75,159	117,759	-
Accounts	4,055	-	4,055	-
Accrued interest	719	43	762	-
Bond issue costs	9,609	-	9,609	-
Capital assets (net of accumulated depreciation)	13,740,060	12,411,159	26,151,219	-
Total assets	17,649,719	15,761,131	33,410,850	154,712

Exhibit G

City of Johnston
Statement of Net Assets
Proprietary Funds

June 30, 2005

	Business Type Activities			Governmental Activities
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Liabilities				
Current liabilities:				
Accounts payable	10,028	12,245	22,273	5,474
Accrued interest payable on general obligation bonds	-	3,560	3,560	-
Salaries and benefits payable	4,880	4,880	9,760	-
Contracts payable	-	35,808	35,808	-
Due to other governments	140,219	997	141,216	-
Compensated absences	5,839	5,840	11,679	-
General obligation bonds	-	115,000	115,000	-
Current liabilities payable from restricted assets:				
Customer deposits	12,835	-	12,835	-
Revenue bonds and notes	185,000	100,000	285,000	-
Accrued interest	20,295	2,582	22,877	-
Long-term liabilities:				
General obligation bonds	-	1,120,000	1,120,000	-
Revenue bonds and notes (net of unamortized discount)	4,983,973	870,000	5,853,973	-
Compensated absences	495	495	990	-
Total liabilities	5,363,564	2,271,407	7,634,971	5,474
Net Assets				
Invested in capital assets, net of related debt	8,571,087	10,206,159	18,777,246	-
Restricted for:				
Revenue note retirement	764,592	117,000	881,592	-
Improvements	142,817	500,000	642,817	-
Unrestricted	2,807,659	2,666,565	5,474,224	149,238
Total net assets	\$ 12,286,155	13,489,724	25,775,879	149,238

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2005

	Business Type			Governmental
	Activities			Activities
	Enterprise Funds			Internal
	Water	Sewer	Total	Service Funds
Operating revenues:				
Charges for service	\$ 2,014,682	1,125,156	3,139,838	-
Miscellaneous	264,030	18,734	282,764	165,288
Total operating revenues	2,278,712	1,143,890	3,422,602	165,288
Operating expenses:				
Governmental activities:				
Public safety	-	-	-	12,709
Public works	-	-	-	7,835
Culture and recreation	-	-	-	12,824
Community and economic development	-	-	-	6,968
General government	-	-	-	13,778
Business type activities:				
Cost of sales and services	1,645,652	638,960	2,284,612	-
Depreciation	288,040	290,119	578,159	-
Total operating expenses	1,933,692	929,079	2,862,771	54,114
Operating income	345,020	214,811	559,831	111,174
Non-operating revenues (expenses):				
Interest income	52,803	44,778	97,581	-
Interest expense	(260,465)	(65,432)	(325,897)	-
Service connection fees	131,403	582,562	713,965	-
Reimbursement from other governments	35,024	167,000	202,024	-
Miscellaneous	-	4,299	4,299	-
Net non-operating revenues (expenses)	(41,235)	733,207	691,972	-
Net income before contributions and transfers	303,785	948,018	1,251,803	111,174
Capital contributions	368,910	398,790	767,700	-
Contribution to joint venture	-	(3,531,346)	(3,531,346)	-
Transfers in	-	1,070,000	1,070,000	-
Total contributions and transfers	368,910	(2,062,556)	(1,693,646)	-
Changes in net assets	672,695	(1,114,538)	(441,843)	111,174
Net assets beginning of year, as restated	11,613,460	14,604,262	26,217,722	38,064
Net assets end of year	\$ 12,286,155	13,489,724	25,775,879	149,238

See notes to financial statements.

City of Johnston

City of Johnston
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2005

	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	\$ 1,921,413	1,105,125	3,026,538	14,199
Cash received from operating fund reimbursements	-	-	-	151,089
Cash received from other revenues	256,163	17,637	273,800	-
Cash paid for personal services	(164,133)	(163,811)	(327,944)	-
Cash paid to suppliers	(1,741,028)	(479,849)	(2,220,877)	(51,920)
Net cash provided by operating activities	<u>272,415</u>	<u>479,102</u>	<u>751,517</u>	<u>113,368</u>
Cash flows from noncapital financing activities:				
Transfers in	-	1,070,000	1,070,000	-
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(52,429)	(569,308)	(621,737)	-
Special assessments	-	21,219	21,219	-
Service connection fees	131,403	582,562	713,965	-
Reimbursements from other governments	35,024	167,000	202,024	-
Principal paid on revenue bonds and notes	(155,000)	(100,000)	(255,000)	-
Principal paid on general obligation bonds	-	(1,070,000)	(1,070,000)	-
Interest paid on revenue bonds and notes	(254,793)	(32,995)	(287,788)	-
Interest paid on general obligation bonds	-	(29,905)	(29,905)	-
Net cash used for capital and related financing activities	<u>(295,795)</u>	<u>(1,031,427)</u>	<u>(1,327,222)</u>	<u>-</u>
Cash flows from investing activities:				
Interest on investments	47,940	40,437	88,377	-
Net increase in cash and cash equivalents	24,560	558,112	582,672	113,368
Cash and cash equivalents beginning of year	3,163,504	2,476,527	5,640,031	41,344
Cash and cash equivalents end of year	<u>\$ 3,188,064</u>	<u>3,034,639</u>	<u>6,222,703</u>	<u>154,712</u>

Exhibit I

City of Johnston
Statement of Cash Flows
Proprietary Funds

Year ended June 30, 2005

	Business Type Activities			Governmental Activities
	Enterprise Funds			Internal Service Funds
	Water	Sewer	Total	
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 345,020	214,811	559,831	111,174
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	288,040	290,119	578,159	-
(Increase) in customer accounts and unbilled usage and other accounts receivable	(97,156)	(21,128)	(118,284)	-
(Increase) in due from other governments	(3,980)	-	(3,980)	-
(Increase) in inventories	(194,633)	-	(194,633)	-
(Increase) in prepaid expenses	(377)	(600)	(977)	-
(Decrease) in accounts payable	(51,238)	(1,734)	(52,972)	2,194
(Decrease) in salaries payable	(1,397)	(1,397)	(2,794)	-
Increase in contract payables	-	(1,938)	(1,938)	-
Increase in compensated absences	862	863	1,725	-
Increase in customer deposits	1,380	-	1,380	-
Increase (decrease) in due to other governments	(14,106)	106	(14,000)	-
Net cash provided by operating activities	<u>\$ 272,415</u>	<u>479,102</u>	<u>751,517</u>	<u>113,368</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:				
Current assets:				
Cash and pooled investments	\$ 2,209,147	2,415,171	4,624,318	154,712
Restricted assets:				
Cash and pooled investments:	978,917	619,468	1,598,385	-
Cash and cash equivalents at year end	<u>\$ 3,188,064</u>	<u>3,034,639</u>	<u>6,222,703</u>	<u>154,712</u>

Non-cash investing, capital, and financing activities:

During the year ended June 30, 2005, developers contributed water main and sanitary sewer extensions totaling \$368,910 and \$398,790, respectively, to the Enterprise, Water and Sewer Funds.

On July 1, 2004, the Des Moines Metropolitan Wastewater Reclamation Authority (WRA), a joint venture, was reorganized as a separate legal entity. Pursuant to the new agreement, the City's equity interest at July 1, 2004 of \$3,531,346 was contributed to the WRA.

See notes to financial statements.

City of Johnston

Notes to Financial Statements

June 30, 2005

(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.

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 and the Des Moines Metropolitan Wastewater Reclamation Authority, jointly governed organizations 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 service.

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, contributions and interest 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, Urban Renewal 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, 2005 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, 2003 assessed property valuations; is for the tax accrual period July 1, 2004 through June 30, 2005 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March, 2004.

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 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 materials 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 Proprietary Funds 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 two 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, 2005. 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 in 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, 2005, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2005 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 \$20,617,576 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The investment in the Iowa Public Agency Investment Trust is unrated for credit risk purposes.

(3) Capital Assets

Capital assets activity for the year ended June 30, 2005 was as follows:

	Balance Beginning of of Year (as restated, note 12)	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 2,733,836	117,868	-	2,851,704
Construction in progress - infrastructure	-	1,526,506	(156,469)	1,370,037
Total capital assets not being depreciated	<u>2,733,836</u>	<u>1,644,374</u>	<u>(156,469)</u>	<u>4,221,741</u>
Capital assets being depreciated:				
Buildings	7,026,182	160,228	-	7,186,410
Improvements other than buildings	117,411	202,269	-	319,680
Equipment and vehicles	3,241,653	1,114,271	(243,432)	4,112,492
Infrastructure, road network	52,202,981	974,485	-	53,177,466
Infrastructure, other	663,611	-	-	663,611
Total capital assets being depreciated	<u>63,251,838</u>	<u>2,451,253</u>	<u>(243,432)</u>	<u>65,459,659</u>
Less accumulated depreciation for:				
Buildings	776,748	155,681	-	932,429
Improvements other than buildings	23,627	17,888	-	41,515
Equipment and vehicles	1,933,670	340,501	(222,856)	2,051,315
Infrastructure, road network	7,839,359	1,463,808	-	9,303,167
Infrastructure, other	170,100	35,831	-	205,931
Total accumulated depreciation	<u>10,743,504</u>	<u>2,013,709</u>	<u>(222,856)</u>	<u>12,534,357</u>
Total capital assets being depreciated, net	<u>52,508,334</u>	<u>437,544</u>	<u>(20,576)</u>	<u>52,925,302</u>
Governmental activities capital assets, net	<u>\$ 55,242,170</u>	<u>2,081,918</u>	<u>(177,045)</u>	<u>57,147,043</u>
Business type activities:				
Capital assets not being depreciated:				
Land	\$ -	7,747	-	7,747
Construction in progress	-	623,264	-	623,264
Total capital assets not being depreciated	<u>-</u>	<u>631,011</u>	<u>-</u>	<u>631,011</u>
Capital assets being depreciated:				
Equipment and vehicles	264,979	11,284	-	276,263
Infrastructure, water and sewer network	29,204,466	767,700	-	29,972,166
Total capital assets being depreciated	<u>29,469,445</u>	<u>778,984</u>	<u>-</u>	<u>30,248,429</u>
Less accumulated depreciation for:				
Equipment and vehicles	104,320	27,606	-	131,926
Infrastructure, water and sewer network	4,045,742	550,553	-	4,596,295
Total accumulated depreciation	<u>4,150,062</u>	<u>578,159</u>	<u>-</u>	<u>4,728,221</u>
Total capital assets being depreciated, net	<u>25,319,383</u>	<u>200,825</u>	<u>-</u>	<u>25,520,208</u>
Business type activities capital assets, net	<u>\$ 25,319,383</u>	<u>831,836</u>	<u>-</u>	<u>26,151,219</u>

Depreciation expense was charged to the following functions:

Governmental activities:		
Public safety		\$ 72,807
Public works		1,734,289
Culture and recreation		173,647
Community and economic development		10,266
General government		22,700
		<u>2,013,709</u>
Total depreciation expense - governmental activities		\$ 2,013,709
Business type activities:		
Water		\$ 288,040
Sewer		290,119
		<u>578,159</u>
Total depreciation expense - business type activities		\$ 578,159

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2005 is as follows:

	Balance Beginning of Year (as restated)	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 29,745,000	8,995,000	3,375,000	35,365,000	2,605,000
Compensated absences	190,204	240,076	199,662	230,618	142,869
Total	\$ 29,935,204	9,235,076	3,574,662	35,595,618	2,747,869

The July 1, 2004 long-term liabilities balance for governmental activities has been restated as follows:

Balance June 30, 2004, as previously reported	\$ 30,570,024
General obligation bonds reclassified to business type activities	<u>(635,000)</u>
Balance July 1, 2004, as restated	<u>\$ 29,935,024</u>

	Balance Beginning of Year (as restated)	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
General obligation bonds/notes	\$ 2,299,256	5,744	1,070,000	1,235,000	115,000
Revenue bonds/notes	6,388,912	5,061	255,000	6,138,973 (1)	285,000
Des Moines Metropolitan Wastewater Reclamation Authority bonds/notes	524,262	-	524,262	-	-
Compensated absences	10,944	52,164	50,439	12,669	11,679
Total	\$ 9,223,374	62,969	1,899,701	7,386,642	411,679

(1) Bonds were sold at a discount; unamortized discount at June 30, 2005 totaled \$71,027.

The July 1, 2004 long-term liabilities balance for business type activities has been restated as follows:

Balance July 1, 2004, as previously reported	\$ 8,588,374
General obligation bonds reclassified from governmental activities	<u>635,000</u>
Balance July 1, 2004, as restated	<u><u>\$ 9,223,374</u></u>

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 \$35,365,000 as of June 30, 2005. The portion of unmatured general obligation bonds expected to be repaid from business type activities and accounted for in the Enterprise Funds totaled \$1,235,000 at June 30, 2005. 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.

Thirteen issues of unmatured general obligation bonds/notes payable from the Debt Service Fund bear interest at rates ranging from 1.90% to 6.35% and mature in varying annual amounts ranging from \$20,000 to \$905,000 with final maturities due in the year ending June 30, 2021.

Details of general obligation bonds/notes payable at June 30, 2005 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2005
General obligation bonds/notes:						
Essential corporate purpose	Nov 1, 1996	4.90-5.25%	June 1, 2012	60,000-255,000	\$ 2,070,000	1,505,000
Essential corporate purpose	Aug 1, 1998	4.00-4.50	June 1, 2013	225,000-370,000	3,780,000	2,570,000
Essential corporate purpose	Aug 1, 1998	5.90-6.35	June 1, 2008	35,000-50,000	340,000	145,000
Refunding	Dec 1, 1998	4.10-4.35	June 1, 2012	85,000-150,000	1,070,000	815,000
Essential corporate purpose	Feb 1, 1999	4.00-4.50	June 1, 2014	65,000-160,000	1,785,000	1,215,000
Essential corporate purpose	Oct 1, 1999	4.80-5.20	June 1, 2015	85,000-170,000	1,800,000	1,340,000
General and essential corporate purpose	Apr 15, 2000	4.75-5.35	June 1, 2015	465,000-905,000	9,155,000	7,160,000
Essential corporate purpose	Mar 1, 2001	3.65-4.80	June 1, 2016	175,000-320,000	3,360,000	2,795,000
Essential corporate purpose	Dec 1, 2001	3.00-4.40	June 1, 2016	115,000-190,000	2,060,000	1,705,000
Essential corporate purpose	Oct 1, 2002	2.00-3.95	June 1, 2017	265,000-430,000	4,655,000	4,120,000
Refunding notes	Oct 1, 2003	1.90-3.90	June 1, 2013	20,000-30,000	265,000	220,000
Essential corporate purpose and refunding notes	May 15, 2004	2.00-4.00	June 1, 2014	225,000-680,000	3,245,000	2,780,000
Essential corporate purpose	Jun 1, 2005	3.75-4.00	June 1, 2021	465,000-775,000	8,995,000	<u>8,995,000</u>
Total governmental activities						<u><u>\$ 35,365,000</u></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
2006	\$ 2,605,000	1,491,979	4,096,979
2007	3,015,000	1,393,125	4,408,125
2008	3,040,000	1,272,130	4,312,130
2009	2,990,000	1,147,311	4,137,311
2010	3,125,000	1,007,079	4,132,079
2011-2015	15,035,000	3,006,290	18,041,290
2016-2020	4,780,000	662,034	5,442,034
2021	775,000	31,000	806,000
Total	\$ 35,365,000	10,010,948	45,375,948

Business Type Activities:

Two issues of unmatured general obligation bonds totaling \$1,235,000 and payable from the Enterprise Fund are outstanding at June 30, 2005. These bonds bear interest at rates ranging from 2.00% to 5.20% and mature in varying annual amounts ranging from \$20,000 to \$40,000, with final maturities due in the year ending June 30, 2015.

Three issues of unmatured revenue bonds/notes totaling \$6,210,000 are outstanding at June 30, 2005. 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 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 Iowa 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 in each account 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, 2005, 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, 2005 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2005
General obligation bonds/notes:						
Essential corporate purpose	Oct 1, 1999	4.80-5.20%	June 1, 2015	20,000-40,000	\$ 450,000	335,000
Essential corporate purpose and refunding bonds	May 15, 2004	2.00-4.00	June 1, 2014	25,000-30,000	900,000	900,000
						<u>1,235,000</u>
Revenue bonds/notes:						
Water	Jun 1, 1997	4.50-5.40	June 1, 2013	55,000-120,000	1,245,000	790,000
Water	Oct 1, 2001	4.30-4.90	June 1, 2021	50,000-470,000	4,580,000	4,450,000
Sewer	Oct 1, 2003	1.50-3.65	June 1, 2013	100,000-135,000	1,170,000	970,000
						<u>6,210,000</u>
Total business type activities						<u>\$ 7,445,000</u>

A summary of the annual general obligation bond 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
2006	\$ 115,000	48,413	163,413	285,000	237,568	522,568
2007	125,000	44,963	169,963	335,000	229,949	564,949
2008	125,000	40,673	165,673	360,000	220,558	580,558
2009	125,000	36,353	161,353	375,000	210,239	585,239
2010	125,000	31,320	156,320	395,000	199,478	594,478
2011-2015	620,000	72,890	692,890	1,955,000	813,808	2,768,808
2016-2020	-	-	-	2,035,000	417,452	2,452,452
2021-2025	-	-	-	470,000	23,030	493,030
Total	<u>\$ 1,235,000</u>	<u>274,612</u>	<u>1,509,612</u>	<u>\$ 6,210,000</u>	<u>2,352,082</u>	<u>8,562,082</u>

Sewer Revenue Capital Loan Note

On May 17, 2005, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank Iowa, N.A. for the issuance of \$3,535,000 of sewer revenue capital loan notes with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of acquisition,

construction, reconstruction, extending, remodeling, improving, repairing and equipping the municipal sewer system. The City will receive drawdowns from the Trustee for costs as they are incurred. At June 30, 2005, the City had not yet drawn any of the \$3,535,000 authorized.

Wells Fargo Bank Iowa, N.A. has the funds held in trust which the City will request as the project progresses. An initiation fee of 1% of the authorized borrowing for the sewer revenue capital loan notes was charged by Wells Fargo Bank Iowa, N.A. The total initiation fee will be withheld by the bank from the first proceeds of the sewer revenue capital loan notes. Since the City has not yet begun drawing funds on the sewer revenue capital loan notes, a formal repayment schedule has not yet been adopted for the debt.

(5) Joint Venture and Commitments

The City is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of sewer flows for the participating communities. The Amended and Restated Agreement for the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) was effective on July 1, 2004. This agreement amended and restated the previous Integrated Community Area (I.C.A.) Agreement to provide continued operation, improvements and expansion. The WRA Agreement establishes the WRA as a separate legal entity with its own Board, creates an independent governance structure, establishes an independent bonding authority for the WRA and provides a framework for additional communities to participate.

Annually, the WRA establishes an allocation to all participating communities based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and are adjusted prospectively for differences in budgeted flows and actual flows.

As part of the Agreement, the WRA issued debt to advance refund the sewer revenue refunding bonds Series 1997C and 2002D and the state revolving loans SRF2 and SRF3 of the City of Des Moines. In addition, state revolving loans SRF4, SRF6 and SRF7 were reassigned from the City of Des Moines to the WRA. The City of Johnston had previously entered into various financing agreements with the City of Des Moines to provide for the City of Johnston's share of capital contributions for the construction and ongoing expansion of the WRA. The issuance of the debt by the WRA to advance refund and reassign previously issued City of Des Moines debt removes the City of Johnston's previous liability to the City of Des Moines.

The City of Johnston retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A and 2004B include provisions that place the WRA debt service requirements on the same parity and rank as other debts of the participating communities.

The WRA Agreement requires the debt service on the Series 2004A bonds to be allocated using the annual flow allocation to the participating communities based on the existing allocations of debt service under the prior I.C.A. agreement. The Series 2004A bonds had a balance of \$23,290,000 as of June 30, 2005. The City of Johnston has a commitment for approximately \$319,575, or 1.37%, for future principal payment requirements on that debt. The WRA Sewer Revenue Bonds Series 2004B bonds were issued for capital expansion. The WRA Agreement requires the debt service on these bonds to be allocated

to the participating communities based on the WRA flows of the core communities and expansion communities of each calendar year. As of June 30, 2005, the Series 2004B bonds had a balance of \$66,830,000 and the City of Johnston's estimated future allocation based on the WRA flows is currently \$692,935, or 1.04%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2005, the WRA had \$13,783,000 in outstanding State Revolving Loans, of which \$94,248 of future principal debt service is a commitment of the City of Johnston.

The WRA Agreement does not provide for the determination of an equity interest for the participating communities. Withdrawing from the joint venture is a forfeit of all reversionary interest and no compensation will be paid. Since there is no specific and measurable equity interest in the WRA Agreement, the investment in the joint venture previously reported by the City has been removed. Pursuant to the new agreement, the City's investment in the joint venture under the I.C.A. Agreement has been contributed to the new WRA organization. This contribution of \$3,531,346 is recorded as a special item in the Sewer Fund. The City retains a reversionary interest percentage in the net assets of the WRA redeemable only in the event the WRA is dissolved.

The WRA issues separate financial statements that may be obtained at 3000 Vandalia Road, Des Moines, Iowa 50317-1346.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2005 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Special Revenue: Urban Renewal Tax Increment Financing	\$ 979,229
Capital Projects	General	204,773
	Special Revenue:	
	Central Park District	6,330
	North Park District	42,454
	Northwest Park District	55,000
	Southwest Park District	47,678
		<u>356,235</u>
Special Revenue		
Senior Citizens	General	2,145
Community Improvement	General	15,000
		<u>17,145</u>
Enterprise:		
Sewer	Debt Service	<u>1,070,000</u>
Total		<u>\$ 2,422,609</u>

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 \$12,744,791.

The City has rebated a total of \$5,579,304 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2005 was \$7,165,487.

(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, 2005, the City had loaned \$382,570 under the agreements and forgiven \$281,270 of the loans, leaving a balance of \$101,300.

(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.

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the city contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2005, 2004 and 2003 were \$182,350, \$150,945 and \$143,275, respectively, equal to the required contributions for each year.

(10) 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 \$10,215,000 is outstanding at June 30, 2005. 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.

(11) 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 \$1,500 per individual for single coverage and \$3,000 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 contributed \$151,089 to the fund for the year ended June 30, 2005.

Amounts payable from the Internal Service, Health Deductible Claims Fund at June 30, 2005 total \$5,474, 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, 2004	\$ 3,280
Incurred claims	40,886
Payments on claims during the fiscal year	<u>38,692</u>
Unpaid claims at June 30, 2005	<u>\$ 5,474</u>

(12) Restatements

Beginning net assets for governmental and business type activities have been restated due to errors in reporting infrastructure and related accumulated depreciation in the prior year and adjustments to reclassify certain outstanding debt from a governmental activities obligation to a business type activities obligation. The restatements decreased the beginning net assets of the governmental activities and business type activities as follows:

	<u>Total</u>
Governmental activities:	
Net assets, June 30, 2004, as previously reported:	\$ 37,711,849
Correction of prior year infrastructure and related accumulated depreciation	(1,475,675)
General obligation bonds/notes payable decreased due to a reclassification of certain outstanding debt from a governmental activities obligation to a business type activities obligation	<u>635,000</u>
Net assets, July 1, 2004, as restated	<u>\$ 36,871,174</u>
Business type activities:	
Net assets, June 30, 2004, as previously reported:	\$ 26,852,722
General obligation bonds/notes payable increased due to a reclassification of certain outstanding debt from a governmental activities obligation to a business type obligation	<u>(635,000)</u>
Net assets, July 1, 2004, as restated	<u>\$ 26,217,722</u>

(13) Subsequent Events

In July 2005, the City approved a \$6 million contract for NW 62nd Avenue Improvements. The project will be financed with proceeds from general obligation bonds issued in June 2005.

In August 2005, the City approved a \$4.3 million contract for the NW Beaver Drive Sanitary Sewer Project. The project will be financed with sewer revenue capital loan notes authorized in May 2005.

In August 2005, the City issued \$900,000 of general obligation bonds to finance construction of the Beaver Creek/NW 70th Avenue sanitary sewer extension project.

City of Johnston

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, 2005

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
Receipts:			
Property tax	\$ 6,390,560	-	6,390,560
Tax increment financing	3,302,851	-	3,302,851
Other city tax	599,740	-	599,740
Licenses and permits	639,080	-	639,080
Use of money and property	213,820	88,379	302,199
Intergovernmental	1,035,930	198,044	1,233,974
Charges for service	148,349	3,740,923	3,889,272
Special assessments	332,211	21,219	353,430
Miscellaneous	320,215	282,157	602,372
Total receipts	<u>12,982,756</u>	<u>4,330,722</u>	<u>17,313,478</u>
Disbursements:			
Public safety	2,350,911	-	2,350,911
Public works	1,915,174	-	1,915,174
Health and social services	53,427	-	53,427
Culture and recreation	1,581,408	-	1,581,408
Community and economic development	2,002,279	-	2,002,279
General government	924,484	-	924,484
Debt service	3,683,753	-	3,683,753
Capital projects	1,438,099	-	1,438,099
Business type activities	-	4,785,048	4,785,048
Total disbursements	<u>13,949,535</u>	<u>4,785,048</u>	<u>18,734,583</u>
Excess (deficiency) of receipts over (under) disbursements	(966,779)	(454,326)	(1,421,105)
Other financing sources, net	<u>6,976,610</u>	<u>1,036,998</u>	<u>8,013,608</u>
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	6,009,831	582,672	6,592,503
Balances beginning of year	<u>10,325,834</u>	<u>5,640,031</u>	<u>15,965,865</u>
Balances end of year	<u>\$ 16,335,665</u>	<u>6,222,703</u>	<u>22,558,368</u>

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Net	Budgeted Amounts		Final to Actual Variance
		Original	Final	
-	6,390,560	6,397,382	6,397,382	(6,822)
-	3,302,851	3,328,296	3,189,741	113,110
-	599,740	648,168	628,168	(28,428)
-	639,080	448,696	655,675	(16,595)
1,889	300,310	61,825	225,237	75,073
-	1,233,974	806,722	1,146,346	87,628
-	3,889,272	3,296,800	3,766,521	122,751
-	353,430	30,000	358,116	(4,686)
19,797	582,575	306,906	582,267	308
21,686	17,291,792	15,324,795	16,949,453	342,339
-	2,350,911	1,648,339	2,557,546	206,635
-	1,915,174	1,825,813	2,359,129	443,955
-	53,427	71,096	71,096	17,669
41,444	1,539,964	1,582,528	1,645,334	105,370
-	2,002,279	2,543,274	2,332,456	330,177
-	924,484	940,887	971,935	47,451
-	3,683,753	3,604,199	3,846,010	162,257
-	1,438,099	2,558,580	2,031,660	593,561
-	4,785,048	4,413,098	5,380,533	595,485
41,444	18,693,139	19,187,814	21,195,699	2,502,560
(19,758)	(1,401,347)	(3,863,019)	(4,246,246)	2,844,899
-	8,013,608	2,968,958	9,513,420	(1,499,812)
(19,758)	6,612,261	(894,061)	5,267,174	1,345,087
225,578	15,740,287	11,529,736	13,840,177	1,900,110
205,820	22,352,548	10,635,675	19,107,351	3,245,197

City of Johnston
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2005

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjustments	Accrual Basis
Revenues	\$ 12,982,756	(117,755)	12,865,001
Expenditures	13,949,535	277,371	14,226,906
Net	(966,779)	(395,126)	(1,361,905)
Other financing sources (uses)	6,976,610	(33,002)	6,943,608
Beginning fund balances	10,325,834	42,796	10,368,630
Ending fund balances	\$ 16,335,665	(385,332)	15,950,333

	Proprietary Funds		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjustments	Basis
Revenues	\$ 4,330,722	877,449	5,208,171
Expenses	4,785,048	1,934,966	6,720,014
Net	(454,326)	(1,057,517)	(1,511,843)
Other financing sources (uses)	1,036,998	33,002	1,070,000
Beginning fund balances, as restated	5,640,031	20,577,691	26,217,722
Ending net assets	\$ 6,222,703	19,553,176	25,775,879

See accompanying independent auditor's report.

City of Johnston

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2005

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds. 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, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$2,007,885. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2005, 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, 2005

	Road Use Tax	Police	Law Enforcement Block Grant	East Park District	Northridge Park District
Assets					
Cash and pooled investments:					
City officials	\$ 337,862	34,408	1,217	40,391	63,634
Library Foundation	-	-	-	-	-
Receivables:					
Accounts	-	-	-	-	-
Accrued interest	-	61	3	84	135
Due from other governments	57,140	-	-	-	-
Total assets	\$ 395,002	34,469	1,220	40,475	63,769
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 111,983	-	-	-	-
Fund equity:					
Fund balances:					
Unreserved, undesignated	283,019	34,469	1,220	40,475	63,769
Total liabilities and fund equity	\$ 395,002	34,469	1,220	40,475	63,769

See accompanying independent auditor's report.

Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Sidewalk	Library Foundation	Total
145,538	6,727	3,089	46,898	16,238	24,528	-	720,530
-	-	-	-	-	-	205,820	205,820
-	-	120	-	-	-	-	120
308	14	6	100	32	52	-	795
-	-	-	-	-	-	-	57,140
<u>145,846</u>	<u>6,741</u>	<u>3,215</u>	<u>46,998</u>	<u>16,270</u>	<u>24,580</u>	<u>205,820</u>	<u>984,405</u>
-	-	165	-	66	-	-	112,214
<u>145,846</u>	<u>6,741</u>	<u>3,050</u>	<u>46,998</u>	<u>16,204</u>	<u>24,580</u>	<u>205,820</u>	<u>872,191</u>
<u>145,846</u>	<u>6,741</u>	<u>3,215</u>	<u>46,998</u>	<u>16,270</u>	<u>24,580</u>	<u>205,820</u>	<u>984,405</u>

City of Johnston

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

Year ended June 30, 2005

	Road Use Tax	Police	Law Enforcement Block Grant	East Park District	Central Park District
Revenues:					
Use of money and property	\$ -	710	5	549	29
Intergovernmental	730,945	4,172	-	-	-
Miscellaneous	-	12,412	600	-	-
Total revenues	<u>730,945</u>	<u>17,294</u>	<u>605</u>	<u>549</u>	<u>29</u>
Expenditures:					
Operating:					
Public safety	-	41,557	420	-	-
Public works	1,026,291	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	-
Total expenditures	<u>1,026,291</u>	<u>41,557</u>	<u>420</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	(295,346)	(24,263)	185	549	29
Other financing sources (uses):					
Operating transfers in (out)	-	-	-	-	(6,330)
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(295,346)	(24,263)	185	549	(6,301)
Fund balances beginning of year	<u>578,365</u>	<u>58,732</u>	<u>1,035</u>	<u>39,926</u>	<u>6,301</u>
Fund balances end of year	<u>\$ 283,019</u>	<u>34,469</u>	<u>1,220</u>	<u>40,475</u>	<u>-</u>

See accompanying independent auditor's report.

Northridge Park District	North Park District Trust	Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Sidewalk	Library Foundation	Total
1,067	190	2,684	274	35	15,922	2,623	414	1,889	26,391
-	-	-	-	-	-	-	-	-	735,117
-	-	-	6,667	1,560	-	7,150	-	19,797	48,186
1,067	190	2,684	6,941	1,595	15,922	9,773	414	21,686	809,694
-	-	-	-	-	-	-	-	-	41,977
-	-	-	-	-	-	-	-	-	1,026,291
-	-	-	-	2,665	-	-	-	41,444	44,109
-	-	-	-	-	-	28,324	-	-	28,324
-	-	-	-	2,665	-	28,324	-	41,444	1,140,701
1,067	190	2,684	6,941	(1,070)	15,922	(18,551)	414	(19,758)	(331,007)
-	(42,454)	(55,000)	(47,678)	2,145	-	15,000	-	-	(134,317)
1,067	(42,264)	(52,316)	(40,737)	1,075	15,922	(3,551)	414	(19,758)	(465,324)
62,702	42,264	198,162	47,478	1,975	31,076	19,755	24,166	225,578	1,337,515
63,769	-	145,846	6,741	3,050	46,998	16,204	24,580	205,820	872,191

Schedule 3

City of Johnston
Combining Statement of Net Assets
Internal Service Funds

June 30, 2005

	<hr/>		
	Flexible	Health	
	Spending	Deductible	Total
	<hr/>		
Assets			
Current assets:			
Cash and pooled investments	\$ (1,358)	156,070	154,712
Liabilities			
Current liabilities:			
Accounts payable	-	(5,474)	(5,474)
Net Assets			
Unrestricted	\$ (1,358)	150,596	149,238

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, 2005

	Flexible Spending	Health Deductible Claims	Total
Operating revenues:			
Miscellaneous:			
Contributions from operating funds	\$ -	151,089	151,089
Contributions from employees	14,199	-	14,199
Total operating revenues	<u>14,199</u>	<u>151,089</u>	<u>165,288</u>
Operating expenses:			
Governmental activities:			
Public safety	1,674	11,035	12,709
Public works	1,689	6,146	7,835
Culture and recreation	4,757	8,067	12,824
Community and economic development	1,590	5,378	6,968
General government	5,712	8,066	13,778
Total operating expenses	<u>15,422</u>	<u>38,692</u>	<u>54,114</u>
Operating gain (loss)	(1,223)	112,397	111,174
Net assets beginning of year	<u>(135)</u>	<u>38,199</u>	<u>38,064</u>
Net assets end of year	<u>\$ (1,358)</u>	<u>150,596</u>	<u>149,238</u>

See accompanying independent auditor's report.

Schedule 5

City of Johnston
Combining Statement of Cash Flows
Internal Service Funds

Year ended June 30, 2005

	Flexible Spending	Health Deductible Claims	Total
Cash flows from operating activities:			
Cash received from employees	\$ 14,199	-	14,199
Cash received from operating fund reimbursements	-	151,089	151,089
Cash paid to suppliers	(15,422)	(36,498)	(51,920)
Net cash provided by (used for) operating activities and net decrease in cash and cash equivalents	(1,223)	114,591	113,368
Cash and cash equivalents beginning of year	(135)	41,479	41,344
Cash and cash equivalents end of year	\$ (1,358)	156,070	154,712
Reconciliation of operating gain (loss) to net cash provided by (used for) operating activities:			
Operating gain (loss)	(1,223)	112,397	111,174
Adjustments to reconcile operating gain (loss) to net cash provided by (used for) operating activities:			
Increase in accounts payable	-	2,194	2,194
Net cash provided by (used for) operating activities	\$ (1,223)	114,591	113,368

See accompanying independent auditor's report.

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

For the Last Three Years

	Modified Accrual Basis		
	2005	2004	2003
Revenues:			
Property tax	\$ 6,515,097	5,646,674	4,746,228
Tax increment financing	3,301,694	3,401,251	4,261,942
Other city tax	513,823	616,366	617,209
Licenses and permits	641,324	592,293	460,251
Use of money and property	230,754	103,509	88,204
Intergovernmental	927,284	1,773,123	1,077,389
Charges for service	124,188	197,092	139,542
Special assessments	301,700	164,721	578,576
Miscellaneous	309,137	410,718	419,570
Total	\$ 12,865,001	12,905,747	12,388,911
Expenditures:			
Operating:			
Public safety	\$ 2,340,892	1,200,395	1,262,863
Public works	1,959,415	1,333,547	1,172,312
Health and social service	45,633	36,664	50,566
Culture and recreation	1,579,669	1,360,424	1,207,358
Community and economic development	1,987,849	2,515,682	1,841,218
General government	914,988	883,652	889,667
Debt service	3,653,793	3,459,911	3,085,438
Capital projects	1,744,667	2,341,502	3,187,030
Total	\$ 14,226,906	13,131,777	12,696,452

See accompanying independent auditor's report.

City of Johnston

**Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards**

City of Johnston



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

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

Independent Auditor's Report on Internal Control
over Financial Reporting and on Compliance and Other Matters
Based on an Audit of Financial Statements Performed in Accordance with
Government Auditing Standards

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Johnston, Iowa, as of and for the year ended June 30, 2005, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 7, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Johnston's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion 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. The reportable conditions are described in the accompanying Schedule of Findings.

A material weakness is a reportable 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 caused by error or fraud 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.

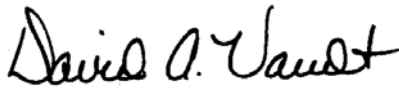
Compliance and Other Matters

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 grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in the accompanying Schedule of Findings.

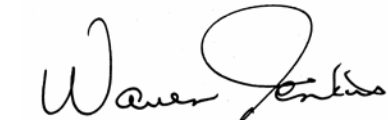
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2005 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions 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.

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

October 7, 2005

City of Johnston
Schedule of Findings
Year ended June 30, 2005

Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- (A) 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 – Procedures will be developed to comply with recommendations.

Conclusion – Response accepted.

- (B) 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 will be developed to comply with recommendations.

Conclusion – Response accepted.

- (C) Building Permits – One individual has control over processing approved building permits, collecting and receipting building permit fees.

Recommendation – Approved permits should be maintained or recorded by a person independent of the collection and receipt of permit fees.

Response – Receipts will be compared to the building permits by an independent person.

Conclusion – Response accepted.

- (D) Inventory – Inventory was not counted at June 30, 2005. Pricing for inventory was not updated to current values.

City of Johnston

Schedule of Findings

Year ended June 30, 2005

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 – Procedures will be developed to comply with recommendations.

Conclusion – Response accepted.

(E) 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 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 will be developed to ensure compliance with deficiencies noted above.

Conclusion – Response accepted.

City of Johnston

Schedule of Findings

Year ended June 30, 2005

Other Findings Related to Required Statutory Reporting:

- (1) 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, 2005.
- (2) Certified Budget – Disbursements during the year ended June 30, 2005 did not exceed the amounts budgeted.
- (3) 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.
- (4) Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- (5) Business Transactions – No business transactions between the City and City officials or employees were noted.
- (6) 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.
- (7) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (8) 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.
- (9) Revenue Bonds/Notes – The City has complied with the requirements of the water revenue bond and sewer revenue capital loan note resolutions.
- (10) 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.

City of Johnston

Schedule of Findings

Year ended June 30, 2005

Response – When approving the 2005/2006 budget on March 7, 2005, the Council approved Resolution No. 2005-69 establishing public purpose for contributions for economic development, arts and culture. The above organizations were specifically listed in the Resolution. We will continue to establish a public purpose for these payments when adopting the City’s budget each year.

Conclusion – Response accepted.

- (11) 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, 2005, 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 establish a policy, clear in its intent, for the purchase of shirts with City logo for employees.

Conclusion – Response accepted.

City of Johnston
Schedule of Findings
Year ended June 30, 2005

(12) Other Information Required by Bond Resolution

Insurance – The following insurance policies were in force at June 30, 2005:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Automobile coverage:		
	Liability	1,000,000	4/1/06
	Uninsured motorists	100,000	4/1/06
	Underinsured motorists	100,000	4/1/06
	Comprehensive/collision	Lesser of cash value or cost of repair	4/1/06
	Auto medical payments	5,000	4/1/06
EMC Insurance Companies	Blanket: Building and personal property	17,195,611	4/1/06
	Property in the open building	55,203	4/1/06
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	4/1/06
	Products aggregate	2,000,000	4/1/06
	Personal/advertising injury	1,000,000	4/1/06
	Each occurrence	1,000,000	4/1/06
	Damage to rented property	100,000	4/1/06
	Medical expense	5,000	4/1/06
EMC Insurance Companies	Commercial crime		
	Employee Theft - Per Employee	200,000	4/1/06
	Forgery or Alteration	10,000	4/1/06
	Inside The Premises	15,000	4/1/06
	Outside the Premises	15,000	4/1/06
EMC Insurance Companies	Inland marine:		
	Contractors equipment	939,579	4/1/06
	Rented contacted equipment	50,000	4/1/06
	Miscellaneous property	47,269	4/1/06
	Data processing - equipment	106,596	4/1/06
EMC Insurance Companies	Commercial umbrella:		
	Each occurrence	5,000,000	4/1/06
	General aggregate	5,000,000	4/1/06
	Retained limit	10,000	4/1/06
EMC Insurance Companies	Workers' compensation:		
	Bodily injury by accident	500,000	4/1/06
	Bodily injury by disease each employee	500,000	4/1/06
	Bodily injury by disease policy limit	500,000	4/1/06
EMC Insurance Companies	Employee fidelity bond (Entity Wide)	200,000	4/1/06
EMC Insurance Companies	Linebacker:		
	Each loss	1,000,000	4/1/06
	Aggregate	1,000,000	4/1/06

City of Johnston
Schedule of Findings
Year ended June 30, 2005

Statistical Information

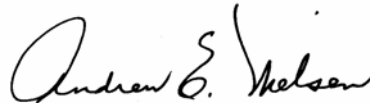
Description	Amount
Sewer customers served at June 30, 2005	3,375
Sewer rates in effect at June 30, 2005:	
Service availability fee per month of \$3.50 plus \$3.23 per 1,000 gallons of water used	
For those contributors who contribute wastewater, the strength of which is greater than normal domestic sewage, 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

City of Johnston

Staff

This audit was performed by:

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Jennifer Campbell, CPA, Senior Auditor
Tiffany A. Gossweiler, Assistant Auditor
Ryan J. Sisson, Assistant Auditor
Bobbie J. Zediker, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State