



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 8, 2007

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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 \$25,564,426 for the year ended June 30, 2006, a 32 percent increase over 2005. Revenues included \$7,329,914 from property tax, \$383,156 from hotel/motel tax, \$2,459,927 from tax increment financing, \$5,123,102 from charges for service, \$1,299,382 from operating grants, contributions and restricted interest, \$8,185,352 from capital grants, contributions and restricted interest, \$292,141 from unrestricted investment earnings and \$491,452 from other general revenues.

Revenues increased due to an increase in property tax revenue, road use tax funding and contributions for infrastructure.

Expenses for City operations totaled \$15,480,315, a 10 percent increase over 2005. Expenses included \$3,071,856 for public works, \$2,414,815 for interest and developer agreement debt and \$2,081,285 for public safety. Expenses for business type activities totaled \$4,109,089.

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 AND QUESTIONED COSTS**

JUNE 30, 2006

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City of Johnston

Officials

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------------|------------------|---------------------|
| (Before January 2006) | | |
| Brian Laurenzo | Mayor | Jan 2006 |
| John Temple | Mayor Pro tem | Jan 2008 |
| Russell Underwood | Council Member | Jan 2006 |
| Mike Wilson | Council Member | Jan 2006 |
| Mary Davis | Council Member | Jan 2008 |
| Paula Dierenfeld | Council Member | Jan 2008 |
| (After January 2006) | | |
| Brian Laurenzo | Mayor | Jan 2008 |
| John Temple | Mayor Pro tem | Jan 2008 |
| Mary Davis | Council Member | Jan 2008 |
| Paula Dierenfeld | Council Member | Jan 2008 |
| Gerd Clabaugh | Council Member | Jan 2010 |
| Richard Tingley | Council Member | Jan 2010 |
| James P. Sanders | Administrator | Indefinite |
| Teresa M. Rotschafer | Finance Director | Indefinite |
| Stephanie L. Reynolds | City Clerk | Indefinite |
| Timothy 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, 2006, 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.

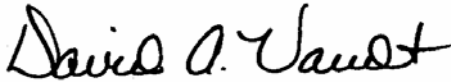
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2006, 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.

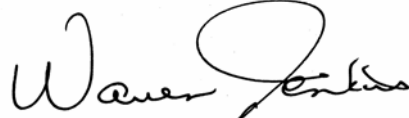
In accordance with Government Auditing Standards, we have also issued our report dated October 25, 2006 on our consideration of the City of Johnston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 52 through 55 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the 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 three years ended June 30, 2005 (which are not presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 7, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, 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 25, 2006

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, 2006. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2006 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds increased \$1,408,286, or approximately 11%, from fiscal 2005 to fiscal 2006. Property tax and intergovernmental revenues increased approximately \$458,000 and \$1,010,900, respectively, while tax increment financing decreased approximately \$842,000.
- Governmental fund expenditures increased \$6,603,840, or approximately 46%, in fiscal 2006 over fiscal 2005. Capital projects and debt service expenditures increased approximately \$6,765,000 and \$1,348,000, respectively. Community and economic development and public works expenditures decreased approximately \$1,200,000 and \$263,000, respectively.
- The City's net assets increased approximately 15%, or \$10,084,000, from June 30, 2005 to June 30, 2006. Of this amount, the net assets of the governmental activities increased approximately \$6,032,000 and the net assets of the business type activities increased by approximately \$4,052,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements 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. In addition, the Schedule of Expenditures of Federal Awards provides details of various federal programs benefiting the City.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statements

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

The Statement of Net Assets presents all of the City's assets and liabilities, with the difference between the two reported as "net assets". Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

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

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

- Governmental activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks 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.

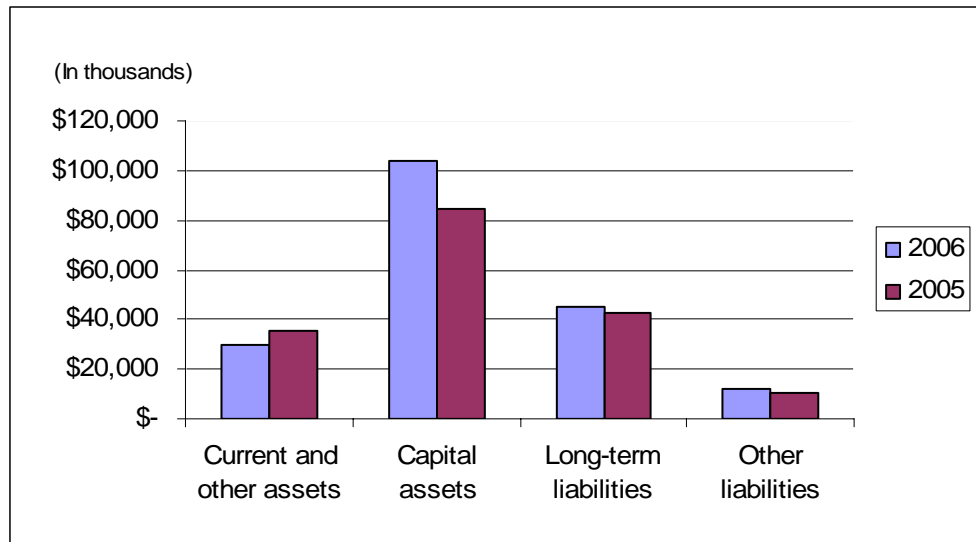
GOVERNMENT-WIDE FINANCIAL ANALYSIS

As described in Note 14 on page 49, beginning governmental activities net assets increased by \$946,133 to correct prior year capital assets and related accumulated depreciation. Beginning governmental activities and business type activities net assets increased and decreased, respectively, by \$529,700 to reclassify general obligation bonds payable from the governmental activities to the business type activities. Net assets for business type activities were also increased to reflect the amount owed the City by Polk County for the NW Beaver Drive Sewer Project. To enhance comparability, all amounts presented for fiscal year 2005 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 | | | | | | | Percent Change |
|--|-----------------------------------|---------------|-----------------------------|---------------|----------------|----------------|-----------------------|-------------------|
| | (Expressed in Thousands) | | | | | | | |
| | Governmental Activities | | Business type Activities | | Total | | June 30, 2005-2006 | |
| | June 30, | | June 30, | | June 30, | | | |
| 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | | | |
| Current and other assets | \$ 21,826 | 27,325 | 8,118 | 7,928 | 29,944 | 35,253 | -15.1% | |
| Capital assets | 68,323 | 58,093 | 35,883 | 26,151 | 104,206 | 84,244 | 23.7% | |
| Total assets | <u>90,149</u> | <u>85,418</u> | <u>44,001</u> | <u>34,079</u> | <u>134,150</u> | <u>119,497</u> | <u>12.3%</u> | |
| Long-term liabilities | 32,546 | 35,066 | 12,742 | 7,632 | 45,288 | 42,698 | 6.1% | |
| Other liabilities | 11,020 | 9,801 | 1,292 | 533 | 12,312 | 10,334 | 19.1% | |
| Total liabilities | <u>43,566</u> | <u>44,867</u> | <u>14,034</u> | <u>8,165</u> | <u>57,600</u> | <u>53,032</u> | <u>8.6%</u> | |
| Net assets: | | | | | | | | |
| Invested in capital assets, net of related debt | 38,096 | 32,544 | 23,156 | 18,247 | 61,252 | 50,791 | 20.6% | |
| Restricted | 6,592 | 5,619 | 1,408 | 1,525 | 8,000 | 7,144 | 12.0% | |
| Unrestricted | 1,895 | 2,388 | 5,403 | 6,142 | 7,298 | 8,530 | -14.4% | |
| Total net assets | <u>\$ 46,583</u> | <u>40,551</u> | <u>29,967</u> | <u>25,914</u> | <u>76,550</u> | <u>66,465</u> | <u>15.2%</u> | |

The following chart presents a comparison of assets and liabilities for fiscal 2006 and fiscal 2005:



Net assets of governmental activities increased from fiscal 2005 by approximately 15%, or \$6,032,000. Net assets of business type activities increased from fiscal 2005 by approximately 16%, or \$4,052,000. Current and other assets decreased by approximately \$5,309,000, or 15.1%, from fiscal 2005, primarily due to bond proceeds held at the end of fiscal 2005 that were spent in fiscal 2006. Capital assets increased over fiscal 2005 by approximately \$19,962,000, or 23.7%, primarily due to progress made on the NW 70th Avenue/Merle Hay Road street improvements, the NW 62nd Avenue street improvements and Pointe Vista storm drainage improvements. Other liabilities increased 19.1%, or nearly \$1,970,000, from fiscal 2005. This increase was primarily due to an increase in contracts payable related to the NW 70th Avenue, NW 62nd Avenue and Pointe Vista storm drainage improvement projects.

The largest portion of the City's net assets is 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 resources other than capital assets. This net asset component increased over fiscal 2005 by approximately \$10,461,000, or 20.6%, primarily due to progress on the NW 62nd Avenue and NW 70th Avenue projects. 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 \$7,298,000 at the end of this year. Restricted net assets increased over fiscal 2005 by approximately \$856,000, or 12%, and unrestricted net assets decreased from 2005 by approximately \$1,232,000, or 14.4%. These changes are primarily due to a change in funds held that are restricted for capital projects.

| | Change in Net Assets | | | | | | | Per Cent Change |
|--|---------------------------------|---------------|-----------------------------|---------------|------------------|---------------|-----------------------|--------------------|
| | (Expressed in Thousands) | | | | | | | |
| | Governmental Activities | | Business type Activities | | Total | | June 30, 2005-2006 | |
| | June 30, | | June 30, | | June 30, | | | |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | | |
| Revenues: | | | | | | | | |
| Program revenues: | | | | | | | | |
| Charges for service | \$ 963 | 902 | \$ 4,160 | 3,853 | \$ 5,123 | 4,755 | 7.7% | |
| Operating grants, contributions and restricted interest | 1,299 | 1,011 | - | - | 1,299 | 1,011 | 28.5% | |
| Capital grants, contributions and restricted interest | 5,312 | 1,811 | 2,873 | 1,638 | 8,185 | 3,449 | 137.3% | |
| General revenues: | | | | | | | | |
| Property and other city tax levied for: | | | | | | | | |
| General purposes | 5,138 | 4,664 | - | - | 5,138 | 4,664 | 10.2% | |
| Debt service | 2,192 | 2,094 | - | - | 2,192 | 2,094 | 4.7% | |
| Hotel/motel tax | 383 | 243 | - | - | 383 | 243 | 57.6% | |
| Tax increment financing | 2,460 | 3,302 | - | - | 2,460 | 3,302 | -25.5% | |
| Unrestricted investment earnings | 72 | 45 | 220 | 97 | 292 | 142 | 105.6% | |
| Gain on sale of capital assets | 68 | 4 | - | - | 68 | 4 | 1600.0% | |
| Miscellaneous | 62 | 70 | 363 | 287 | 425 | 357 | 19.0% | |
| Total revenues | <u>17,949</u> | <u>14,146</u> | <u>7,616</u> | <u>5,875</u> | <u>25,565</u> | <u>20,021</u> | <u>27.7%</u> | |
| Program expenses: | | | | | | | | |
| Public safety | 2,081 | 1,540 | - | - | 2,081 | 1,540 | 35.1% | |
| Public works | 3,072 | 3,320 | - | - | 3,072 | 3,320 | -7.5% | |
| Health and social service | 31 | 46 | - | - | 31 | 46 | -32.6% | |
| Culture and recreation | 1,823 | 1,790 | - | - | 1,823 | 1,790 | 1.8% | |
| Community and economic development | 806 | 1,974 | - | - | 806 | 1,974 | -59.2% | |
| General government | 1,143 | 917 | - | - | 1,143 | 917 | 24.6% | |
| Interest and developer agreement debt | 2,415 | 1,285 | - | - | 2,415 | 1,285 | 87.9% | |
| Water | - | - | 2,827 | 2,194 | 2,827 | 2,194 | 28.9% | |
| Sewer | - | - | 1,282 | 994 | 1,282 | 994 | 29.0% | |
| Total expenses | <u>11,371</u> | <u>10,872</u> | <u>4,109</u> | <u>3,188</u> | <u>15,480</u> | <u>14,060</u> | <u>10.1%</u> | |
| Excess of revenues over expenses | 6,578 | 3,274 | 3,507 | 2,687 | 10,085 | 5,961 | 69.2% | |
| Operating transfers, net | (546) | (1,070) | 546 | 1,070 | - | - | 0.0% | |
| Special item - contribution to joint venture | - | - | - | (3,531) | - | (3,531) | -100.0% | |
| Net assets beginning of year, as restated | <u>40,551</u> | <u>38,347</u> | <u>25,914</u> | <u>25,688</u> | <u>66,465</u> | <u>64,035</u> | <u>3.8%</u> | |
| Net assets end of year | <u>\$ 46,583</u> | <u>40,551</u> | <u>\$ 29,967</u> | <u>25,914</u> | <u>\$ 76,550</u> | <u>66,465</u> | <u>15.2%</u> | |

The tax rate increased approximately 5%, increasing tax revenue approximately \$458,000. Tax increment financing valuation has been released over the past three years, which has increased the taxable valuation used to calculate the general fund tax levy and decreased tax increment financing revenues by approximately \$842,000, or 25.5%.

Overall revenues increased approximately \$5.5 million, or 27.7%, from FY05 to FY06. Operating grants, contributions and restricted interest increased primarily due to an increase in road use tax collections. Capital grants, contributions and restricted interest increased due to an increase in contributions for infrastructure. Unrestricted investment earnings increased due to rising interest rates.

Expenses increased overall by approximately \$1.4 million, or 10.1%. Expenses for public safety increased due to the additional ambulance service offered by the Johnston Fire Department beginning January 1, 2006 and the addition of new police officers. Expenses for community and economic development decreased and expenses for interest and developer agreement debt increased due to the City reclassifying developer agreement payments in fiscal 2006. Expenses for

general government increased due to an increase in property and worker's compensation insurance. Expenses for water increased due to the increased cost of water from the Des Moines Water Works due to a rate increase and additional sales of water to our citizens. Expenses for sewer increased due to an increase in salaries and benefits allocated to the sewer fund, including salaries for new positions. Other increases included depreciation expense, interest paid on debt and additional costs related to the issuance of debt. In fiscal 2005, the City contributed approximately \$3.5 million of equity interest to the newly formed Wastewater Reclamation Authority. No such contribution was made in fiscal 2006.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Johnston completed the year, its governmental funds reported a combined fund balance of \$9,395,274, a decrease of \$6,555,059 from last year's total of \$15,950,333. The following are the major reasons for the changes in fund balances of the governmental funds from the prior year.

The General Fund balance increased by \$140,392 to \$1,953,571, a change of only 7.7%.

The Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund balance decreased by \$293,099 to \$4,242,850, a change of only 6.5%.

The Debt Service Fund balance decreased by \$303,224 to \$437,825. This decrease was primarily due to an increase in scheduled principal and interest payments on general obligation debt.

The Capital Projects Fund balance decreased \$6,294,081 to \$1,693,884. 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. A substantial amount of construction was completed on these projects during FY06.

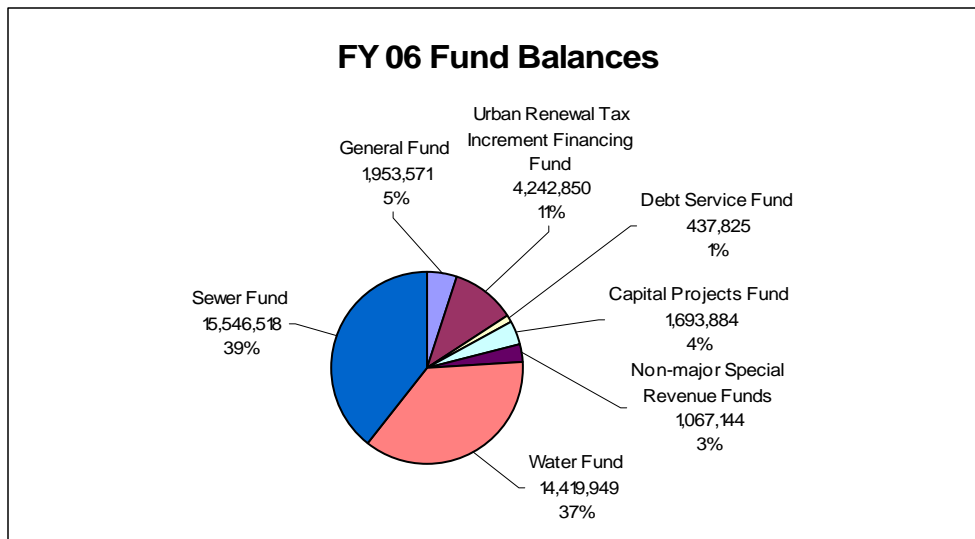
Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2006 with a \$14,419,949 net asset balance compared to the prior year ending net asset balance of \$12,286,155.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment system, ended fiscal 2006 with a \$15,546,518 net asset balance compared to the prior year ending restated net asset balance of \$13,628,024.

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.

The following chart presents the City's fund balances and their percentage to total fund balance for all City funds.



BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget two times. The first amendment was approved on March 6, 2006 and resulted in an increase for the NW Beaver Drive sanitary sewer project. The City had sufficient cash balances to absorb these additional costs. The second amendment was approved on May 15, 2006 and resulted in an overall decrease in budgeted disbursements, primarily in the debt service and capital projects functions. The city disbursed less in these functions than anticipated due to the City's reclassifying certain general obligation debt to business type activities and the timing of progress on the City's projects.

The City's receipts were \$74,471 more than budgeted receipts, a variance of only .4%.

Total disbursements were \$3,862,317 less than budgeted. Actual disbursements for the capital projects and business type activities functions were \$1,829,513 and \$1,202,424, respectively, less than budgeted. This was primarily due to less work completed than anticipated on ongoing projects.

The City did not exceed budgeted amounts for the year ended June 30, 2006.

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 \$68,323,018 (net of accumulated depreciation) at June 30, 2006. Capital assets for business type activities totaled \$35,882,708 (net of accumulated depreciation) at June 30, 2006. 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 | | Business type | | Total | | Per Cent |
| | Activities | | Activities | | June 30, | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-2006 |
| Land | \$ 3,022 | 2,852 | 60 | 8 | 3,082 | 2,860 | 7.8% |
| Construction in progress | 8,451 | 1,370 | 8,007 | 623 | 16,458 | 1,993 | 725.8% |
| Buildings | 7,006 | 6,782 | - | - | 7,006 | 6,782 | 3.3% |
| Improvements other than buildings | 429 | 278 | - | - | 429 | 278 | 54.3% |
| Equipment and vehicles | 2,594 | 2,479 | 165 | 144 | 2,759 | 2,623 | 5.2% |
| Infrastructure, road network | 46,394 | 43,872 | - | - | 46,394 | 43,872 | 5.7% |
| Infrastructure, water/sewer network | - | - | 27,651 | 25,376 | 27,651 | 25,376 | 9.0% |
| Infrastructure, other | 427 | 460 | - | - | 427 | 460 | -7.2% |
| Total | \$ 68,323 | 58,093 | 35,883 | 26,151 | 104,206 | 84,244 | 23.7% |

The major capital outlays for governmental activities during the year included NW 62nd Avenue west of NW 86th Street improvements, a pedestrian bridge along NW 62nd Avenue east of NW 86th Street, NW 70th Avenue/Merle Hay Road Street improvements and storm drainage improvements.

For business type activities, major additions included infrastructure.

Long-Term Debt

At June 30, 2006, the City had \$32,285,700 in total long-term debt outstanding for governmental activities. Total long-term debt outstanding for business type activities was \$12,726,651 at June 30, 2006. 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 | | June 30, | | Change |
| | June 30, | | June 30, | | June 30, | | June 30, |
| | 2006 | 2005 | 2006 | 2005 | 2006 | 2005 | 2005-2006 |
| General obligation bonds/notes | \$ 32,286 | 34,835 | 2,494 | 1,765 | 34,780 | 36,600 | -5.0% |
| Revenue bonds/notes | - | - | 10,232 | 6,139 | 10,232 | 6,139 | 66.7% |
| Total | \$ 32,286 | 34,835 | 12,726 | 7,904 | 45,012 | 42,739 | 5.3% |

During the year ended June 30, 2006, the City issued \$900,000 in general obligation bonds, Series 2005C. The bonds were issued to fund the Beaver Creek/NW 70th Avenue Trunk Sewer Extension.

Funding for the NW Beaver Drive Sanitary Sewer Project was secured with State Revolving Fund revenue bonds, Series 2005A of \$3,535,000 and Series 2006A of \$2,800,000. At June 30, 2006, the City had drawn down bond proceeds totaling \$4,510,378.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several factors affected decisions made by the City in setting its fiscal 2007 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 47.96% to 46.00%. Based on current valuations, the change in the rollback reduced the taxable valuation in Johnston by \$19,826,775 for residential and \$2,403,228 for commercial, which equates to a reduction of \$238,750 in property tax dollars for fiscal 2007.

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 FY07 budget, we were able to release \$32,178,500 in TIF valuation. This brings the total amount of TIF valuation that has been released since 2001 to \$96,080,246.

The General Fund is projected to end fiscal 2007 with a fund balance of \$926,883.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2007 are provided below:

| | |
|-------------------|--------------------|
| General Fund levy | \$ 7.67189 |
| Debt Service levy | <u>3.63378</u> |
| Total | <u>\$ 11.30567</u> |

General Fund expenditures in FY07 are anticipated to increase due to the addition of four full-time firefighters and the addition of a sleep-in program for fire department volunteers. These services for the community began July 1, 2006.

The major project which will affect the City for the next few coming years is the NW 70th Avenue reconstruction, from Merle Hay Road west to NW 86th St.

The first phase of NW 70th Avenue reconstruction was from NW Beaver Drive to Merle Hay Road. Construction of phase 1, beginning at the NW 70th Avenue/ Merle Hay Road area began in the summer of 2005 and was completed during FY06. The second phase of the project will be from Merle Hay Road to NW 86th Street and is estimated to cost \$15.2 million. The City 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. The main entrance to Camp Dodge is served by NW 70th Avenue.

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 Teresa Rotschafer, 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, 2006

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|--------------------|
| Assets | | | |
| Cash and pooled investments | \$ 10,048,980 | 4,736,022 | 14,785,002 |
| Cash and investments held by the Library Foundation | 231,276 | - | 231,276 |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 92,628 | - | 92,628 |
| Succeeding year | 8,082,000 | - | 8,082,000 |
| Tax increment financing: | | | |
| Delinquent | 72,791 | - | 72,791 |
| Succeeding year | 1,348,000 | - | 1,348,000 |
| Customer accounts and unbilled usage | - | 728,389 | 728,389 |
| Accounts | 233,275 | 14,857 | 248,132 |
| Special assessments | 1,028,190 | - | 1,028,190 |
| Accrued interest | 35,834 | 20,239 | 56,073 |
| Due from other governments | 468,045 | 584,500 | 1,052,545 |
| Inventories | - | 256,604 | 256,604 |
| Prepaid expenses | 184,725 | 15,051 | 199,776 |
| Restricted assets: | | | |
| Cash and pooled investments | - | 1,649,429 | 1,649,429 |
| Receivables: | | | |
| Special assessments | - | 101,307 | 101,307 |
| Accounts | - | 1,393 | 1,393 |
| Accrued interest | - | 1,927 | 1,927 |
| Bond issue costs | - | 8,408 | 8,408 |
| Capital assets (net of accumulated depreciation) | 56,849,478 | 27,815,792 | 84,665,270 |
| Capital assets not being depreciated | 11,473,540 | 8,066,916 | 19,540,456 |
| Total assets | 90,148,762 | 44,000,834 | 134,149,596 |

City of Johnston
Statement of Net Assets
June 30, 2006

| | Governmental Activities | Business Type Activities | Total |
|---|----------------------------|-----------------------------|-------------------|
| Liabilities | | | |
| Accounts payable | 144,201 | 46,310 | 190,511 |
| Accrued interest payable | 84,900 | 7,834 | 92,734 |
| Salaries and benefits payable | 80,764 | 6,633 | 87,397 |
| Contracts payable | 1,267,556 | 886,322 | 2,153,878 |
| Due to other governments | 2,324 | 294,333 | 296,657 |
| Deferred revenue: | | | |
| Succeeding year property tax | 8,082,000 | - | 8,082,000 |
| Succeeding year tax increment financing | 1,348,000 | - | 1,348,000 |
| Other | 9,625 | - | 9,625 |
| Liabilities payable from restricted assets: | | | |
| Customer deposits | - | 12,575 | 12,575 |
| Revenue notes | - | 574,000 | 574,000 |
| Accrued interest | - | 37,921 | 37,921 |
| Long-term liabilities: | | | |
| Portion due or payable within one year: | | | |
| General obligation bonds/notes | 2,950,100 | 239,900 | 3,190,000 |
| Compensated absences | 207,680 | 15,682 | 223,362 |
| Portion due or payable after one year: | | | |
| General obligation bonds/notes | 29,335,600 | 2,254,400 | 31,590,000 |
| Revenue notes | - | 9,658,351 | 9,658,351 |
| Compensated absences | 52,913 | 106 | 53,019 |
| Total liabilities | 43,565,663 | 14,034,367 | 57,600,030 |
| Net Assets | | | |
| Invested in capital assets, net of related debt | 38,095,761 | 23,156,057 | 61,251,818 |
| Restricted for: | | | |
| Debt service | 3,840,053 | - | 3,840,053 |
| Capital projects | 1,685,108 | - | 1,685,108 |
| Revenue note retirement | - | 759,592 | 759,592 |
| Improvements | - | 648,122 | 648,122 |
| Other purposes | 1,067,144 | - | 1,067,144 |
| Unrestricted | 1,895,033 | 5,402,696 | 7,297,729 |
| Total net assets | \$ 46,583,099 | 29,966,467 | 76,549,566 |

See notes to financial statements.

City of Johnston
Statement of Activities
Year ended June 30, 2006

| Functions/Programs: | Expenses | Program Revenues | | |
|---------------------------------------|----------------------|---------------------|---|---|
| | | Charges for Service | Operating Grants, Contributions and Restricted Interest | Capital Grants, Contributions and Restricted Interest |
| Governmental activities: | | | | |
| Public safety | \$ 2,081,285 | 131,808 | 56,134 | 6,000 |
| Public works | 3,071,856 | 64,229 | 971,693 | 4,946,257 |
| Health and social services | 30,827 | - | 22,355 | - |
| Culture and recreation | 1,823,569 | 42,521 | 168,630 | 180,569 |
| Community and economic development | 806,258 | 688,150 | 8,390 | - |
| General government | 1,142,616 | 36,287 | - | - |
| Interest and developer agreement debt | 2,414,815 | - | 72,180 | 179,500 |
| Total governmental activities | <u>11,371,226</u> | <u>962,995</u> | <u>1,299,382</u> | <u>5,312,326</u> |
| Business type activities: | | | | |
| Water | 2,827,264 | 2,597,368 | - | 1,819,728 |
| Sewer | 1,281,825 | 1,562,739 | - | 1,053,298 |
| Total business type activities | <u>4,109,089</u> | <u>4,160,107</u> | <u>-</u> | <u>2,873,026</u> |
| Total | <u>\$ 15,480,315</u> | <u>5,123,102</u> | <u>1,299,382</u> | <u>8,185,352</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 | |
| Total general revenues and transfers | |
| 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 |
| (1,887,343) | - | (1,887,343) |
| 2,910,323 | - | 2,910,323 |
| (8,472) | - | (8,472) |
| (1,431,849) | - | (1,431,849) |
| (109,718) | - | (109,718) |
| (1,106,329) | - | (1,106,329) |
| (2,163,135) | - | (2,163,135) |
| (3,796,523) | - | (3,796,523) |
| - | 1,589,832 | 1,589,832 |
| - | 1,334,212 | 1,334,212 |
| - | 2,924,044 | 2,924,044 |
| (3,796,523) | 2,924,044 | (872,479) |
| 5,137,858 | - | 5,137,858 |
| 2,192,056 | - | 2,192,056 |
| 383,156 | - | 383,156 |
| 2,459,927 | - | 2,459,927 |
| 72,390 | 219,751 | 292,141 |
| 67,743 | - | 67,743 |
| 61,448 | 362,261 | 423,709 |
| (546,232) | 546,232 | - |
| 9,828,346 | 1,128,244 | 10,956,590 |
| 6,031,823 | 4,052,288 | 10,084,111 |
| 40,551,276 | 25,914,179 | 66,465,455 |
| \$ 46,583,099 | 29,966,467 | 76,549,566 |

City of Johnston
Balance Sheet
Governmental Funds

June 30, 2006

| | Special Revenue | | |
|--|--|---|------------------|
| | General | Urban Renewal Tax Increment Financing | Debt Service |
| Assets | | | |
| Cash and pooled investments | \$ 1,851,891 | 4,155,865 | 392,329 |
| Cash and investments held by the Library Foundation | - | - | - |
| Receivables: | | | |
| Property tax: | | | |
| Delinquent | 62,102 | - | 30,526 |
| Succeeding year | 5,386,000 | - | 2,696,000 |
| Tax increment financing: | | | |
| Delinquent | - | 72,791 | - |
| Succeeding year | - | 1,348,000 | - |
| Accounts | 112,290 | - | 5,676 |
| Special assessments | - | - | 998,541 |
| Accrued interest | 9,491 | 14,194 | 1,264 |
| Due from other governments | 104,217 | - | - |
| Prepaid expenditures | 184,725 | - | - |
| | Total assets | 5,590,850 | 4,124,336 |
| Liabilities and Fund Balances | | | |
| Liabilities: | | | |
| Accounts payable | \$ 109,970 | - | - |
| Salaries and benefits payable | 77,993 | - | - |
| Contracts payable | 90,190 | - | - |
| Due to other governments | 1,952 | - | - |
| Deferred revenue: | | | |
| Succeeding year property tax | 5,386,000 | - | 2,696,000 |
| Succeeding year tax increment financing | - | 1,348,000 | - |
| Other | 91,040 | - | 990,511 |
| Total liabilities | 5,757,145 | 1,348,000 | 3,686,511 |
| Fund balances: | | | |
| Reserved for: | | | |
| Debt service | - | 4,242,850 | 437,825 |
| Capital projects | - | - | - |
| Unreserved: | | | |
| Undesignated: | | | |
| Reported in: | | | |
| General fund | 1,953,571 | - | - |
| Special revenue funds | - | - | - |
| Total fund balances | 1,953,571 | 4,242,850 | 437,825 |
| | Total liabilities and fund balances | 5,590,850 | 4,124,336 |

See notes to financial statements.

| Capital Projects | Nonmajor Special Revenue | Total |
|---------------------|--------------------------------|-------------------|
| 2,760,656 | 766,081 | 9,926,822 |
| - | 231,276 | 231,276 |
| - | - | 92,628 |
| - | - | 8,082,000 |
| - | - | 72,791 |
| - | - | 1,348,000 |
| 109,304 | 6,005 | 233,275 |
| 29,649 | - | 1,028,190 |
| 9,396 | 1,489 | 35,834 |
| 275,181 | 88,647 | 468,045 |
| - | - | 184,725 |
| <u>3,184,186</u> | <u>1,093,498</u> | <u>21,703,586</u> |
| 9,130 | 23,583 | 142,683 |
| - | 2,771 | 80,764 |
| 1,177,366 | - | 1,267,556 |
| 372 | - | 2,324 |
| - | - | 8,082,000 |
| - | - | 1,348,000 |
| 303,434 | - | 1,384,985 |
| <u>1,490,302</u> | <u>26,354</u> | <u>12,308,312</u> |
| - | - | 4,680,675 |
| 1,693,884 | - | 1,693,884 |
| - | - | 1,953,571 |
| - | 1,067,144 | 1,067,144 |
| <u>1,693,884</u> | <u>1,067,144</u> | <u>9,395,274</u> |
| <u>3,184,186</u> | <u>1,093,498</u> | <u>21,703,586</u> |

City of Johnston

City of Johnston

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

June 30, 2006

Total governmental fund balances (page 23) \$ 9,395,274

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 \$82,822,828 and the accumulated depreciation is \$14,499,810. 68,323,018

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 1,375,360

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit and flexible spending plans to individual funds. The assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Assets. 120,640

Long-term liabilities, including bonds payable, compensated absences payable and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the funds. (32,631,193)

Net assets of governmental activities (page 19) \$ 46,583,099

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2006

| | Special Revenue | | |
|---|---------------------|--------------------|--------------------|
| | General | Urban Renewal | Debt Service |
| Tax Increment Financing | | | |
| Revenues: | | | |
| Property tax | \$ 4,879,220 | - | 2,093,601 |
| Tax increment financing | - | 2,459,927 | - |
| Other city tax | 640,168 | - | 98,455 |
| Licenses and permits | 680,312 | - | - |
| Use of money and property | 106,901 | 156,195 | 72,180 |
| Intergovernmental | 150,918 | - | - |
| Charges for service | 118,142 | - | - |
| Special assessments | - | - | 322,099 |
| Miscellaneous | 126,311 | - | - |
| Total revenues | <u>6,701,972</u> | <u>2,616,122</u> | <u>2,586,335</u> |
| Expenditures: | | | |
| Operating: | | | |
| Public safety | 1,976,733 | - | - |
| Public works | 887,977 | - | - |
| Health and social services | 30,827 | - | - |
| Culture and recreation | 1,665,825 | - | - |
| Community and economic development | 732,694 | 26,767 | - |
| General government | 1,129,580 | - | - |
| Debt service | - | 976,388 | 4,025,829 |
| Capital projects | - | - | - |
| Total expenditures | <u>6,423,636</u> | <u>1,003,155</u> | <u>4,025,829</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>278,336</u> | <u>1,612,967</u> | <u>(1,439,494)</u> |
| Other financing sources (uses): | | | |
| Operating transfers in | - | - | 1,136,270 |
| Operating transfers out | (140,344) | (1,906,066) | - |
| Sale of capital assets | 2,400 | - | - |
| Total other financing sources (uses) | <u>(137,944)</u> | <u>(1,906,066)</u> | <u>1,136,270</u> |
| Net change in fund balances | 140,392 | (293,099) | (303,224) |
| Fund balances beginning of year | 1,813,179 | 4,535,949 | 741,049 |
| Fund balances end of year | <u>\$ 1,953,571</u> | <u>4,242,850</u> | <u>437,825</u> |

See notes to financial statements.

| Capital Projects | Nonmajor Special Revenue | Total |
|---------------------|--------------------------------|--------------------|
| - | - | 6,972,821 |
| - | - | 2,459,927 |
| - | - | 738,623 |
| - | - | 680,312 |
| 215,178 | 51,995 | 602,449 |
| 795,001 | 992,258 | 1,938,177 |
| - | 2,156 | 120,298 |
| 15,138 | - | 337,237 |
| 175,856 | 121,276 | 423,443 |
| <u>1,201,173</u> | <u>1,167,685</u> | <u>14,273,287</u> |
| - | 12,829 | 1,989,562 |
| - | 808,779 | 1,696,756 |
| - | - | 30,827 |
| - | 18,337 | 1,684,162 |
| - | 28,145 | 787,606 |
| - | - | 1,129,580 |
| - | - | 5,002,217 |
| 8,510,036 | - | 8,510,036 |
| <u>8,510,036</u> | <u>868,090</u> | <u>20,830,746</u> |
| <u>(7,308,863)</u> | <u>299,595</u> | <u>(6,557,459)</u> |
| 1,032,651 | 17,145 | 2,186,066 |
| (17,869) | (121,787) | (2,186,066) |
| - | - | 2,400 |
| <u>1,014,782</u> | <u>(104,642)</u> | <u>2,400</u> |
| <u>(6,294,081)</u> | <u>194,953</u> | <u>(6,555,059)</u> |
| <u>7,987,965</u> | <u>872,191</u> | <u>15,950,333</u> |
| <u>1,693,884</u> | <u>1,067,144</u> | <u>9,395,274</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, 2006

Net change in fund balances - Total governmental funds (page 27) \$ (6,555,059)

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 | \$ 8,503,490 | |
| Capital assets contributed by developers and others | 3,780,040 | |
| Depreciation expense | (2,119,031) | 10,164,499 |
| | | |

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. 65,343

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. (171,789)

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. 2,549,600

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 | (29,975) | |
| Accrued interest on long-term debt | 37,802 | 7,827 |
| | | |

The Internal Service Funds are used by management to charge the costs of partial self funding of the City's health insurance benefit and flexible spending plans to individual funds. The change in net assets of the Internal Service Funds is reported with governmental activities. (28,598)

Change in net assets of governmental activities (page 21) \$ 6,031,823

See notes to financial statements.

City of Johnston
Statement of Net Assets
Proprietary Funds

June 30, 2006

| | Business-Type Activities | | | Governmental Activities |
|--|-----------------------------|------------|------------|----------------------------|
| | Enterprise | | | Internal Service |
| | Water | Sewer | Total | |
| Assets | | | | |
| Current assets: | | | | |
| Cash and pooled investments | \$ 2,681,527 | 2,054,495 | 4,736,022 | 122,158 |
| Receivables: | | | | |
| Customer accounts and unbilled usage | 504,022 | 224,367 | 728,389 | - |
| Accounts | 14,857 | - | 14,857 | - |
| Accrued interest | 12,004 | 8,235 | 20,239 | - |
| Due from other governments | - | 584,500 | 584,500 | - |
| Inventories | 256,604 | - | 256,604 | - |
| Prepaid expenses | 7,543 | 7,508 | 15,051 | - |
| Restricted assets: | | | | |
| Cash and pooled investments | 887,680 | 761,749 | 1,649,429 | - |
| Receivables: | | | | |
| Special assessments | 42,600 | 58,707 | 101,307 | - |
| Accounts | 1,393 | - | 1,393 | - |
| Accrued interest | 1,078 | 849 | 1,927 | - |
| Bond issue costs | 8,408 | - | 8,408 | - |
| Capital assets (net of accumulated depreciation) | 14,881,140 | 12,934,652 | 27,815,792 | - |
| Capital assets not being depreciated | 471,778 | 7,595,138 | 8,066,916 | - |
| Total assets | 19,770,634 | 24,230,200 | 44,000,834 | 122,158 |

Exhibit G

City of Johnston
Statement of Net Assets
Proprietary Funds

June 30, 2006

| | Business Type | | | Governmental |
|--|----------------------|-------------------|-------------------|----------------|
| | Activities | | | Activities |
| | Enterprise | | | Internal |
| | Water | Sewer | Total | Service |
| Liabilities | | | | |
| Current liabilities: | | | | |
| Accounts payable | 24,958 | 21,352 | 46,310 | 1,518 |
| Accrued interest payable on general obligation bonds | - | 7,834 | 7,834 | - |
| Salaries and benefits payable | 3,316 | 3,317 | 6,633 | - |
| Contracts payable | - | 886,322 | 886,322 | - |
| Due to other governments | 293,322 | 1,011 | 294,333 | - |
| Compensated absences | 7,841 | 7,841 | 15,682 | - |
| General obligation bonds | - | 239,900 | 239,900 | - |
| Current liabilities payable from restricted assets: | | | | |
| Customer deposits | 12,575 | - | 12,575 | - |
| Revenue bonds and notes | 220,000 | 354,000 | 574,000 | - |
| Accrued interest | 19,585 | 18,336 | 37,921 | - |
| Long-term liabilities: | | | | |
| General obligation bonds | - | 2,254,400 | 2,254,400 | - |
| Revenue bonds and notes (net of unamortized discount) | 4,769,035 | 4,889,316 | 9,658,351 | - |
| Compensated absences | 53 | 53 | 106 | - |
| Total liabilities | 5,350,685 | 8,683,682 | 14,034,367 | 1,518 |
| Net Assets | | | | |
| Invested in capital assets, net of related debt | 10,363,883 | 12,792,174 | 23,156,057 | - |
| Restricted for: | | | | |
| Revenue note retirement | 582,500 | 177,092 | 759,592 | - |
| Improvements | 148,122 | 500,000 | 648,122 | - |
| Unrestricted | 3,325,444 | 2,077,252 | 5,402,696 | 120,640 |
| Total net assets | \$ 14,419,949 | 15,546,518 | 29,966,467 | 120,640 |

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2006

| | Business Type | | | Governmental |
|---|---------------|------------|------------|--------------|
| | Activities | | | Activities |
| | Enterprise | | | Internal |
| | Water | Sewer | Total | Service |
| Operating revenues: | | | | |
| Charges for service | \$ 2,485,190 | 1,335,305 | 3,820,495 | - |
| Miscellaneous | 338,128 | 20,554 | 358,682 | 26,153 |
| Total operating revenues | 2,823,318 | 1,355,859 | 4,179,177 | 26,153 |
| Operating expenses: | | | | |
| Governmental activities: | | | | |
| Public safety | - | - | - | 11,666 |
| Public works | - | - | - | 7,594 |
| Culture and recreation | - | - | - | 13,650 |
| Community and economic development | - | - | - | 6,807 |
| General government | - | - | - | 15,034 |
| Business type activities: | | | | |
| Cost of sales and services | 2,254,551 | 776,499 | 3,031,050 | - |
| Depreciation | 319,558 | 320,582 | 640,140 | - |
| Total operating expenses | 2,574,109 | 1,097,081 | 3,671,190 | 54,751 |
| Operating income (loss) | 249,209 | 258,778 | 507,987 | (28,598) |
| Non-operating revenues (expenses): | | | | |
| Interest income | 131,380 | 88,371 | 219,751 | - |
| Interest expense | (253,155) | (184,744) | (437,899) | - |
| Service connection fees | 112,178 | 227,434 | 339,612 | - |
| Miscellaneous | - | 3,579 | 3,579 | - |
| Total non-operating revenues (expenses) | (9,597) | 134,640 | 125,043 | - |
| Net income (loss) before contributions | 239,612 | 393,418 | 633,030 | (28,598) |
| Capital contributions | 1,894,182 | 1,525,076 | 3,419,258 | - |
| Changes in net assets | 2,133,794 | 1,918,494 | 4,052,288 | (28,598) |
| Net assets beginning of year, as restated | 12,286,155 | 13,628,024 | 25,914,179 | 149,238 |
| Net assets end of year | \$ 14,419,949 | 15,546,518 | 29,966,467 | 120,640 |

See notes to financial statements.

Exhibit I

City of Johnston
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2006

| | Business Type | | | Governmental |
|--|---------------|-------------|-------------|--------------|
| | Activities | | | Activities |
| | Enterprise | | | Internal |
| | Water | Sewer | Total | Service |
| Cash flows from operating activities: | | | | |
| Cash received from customers, users and employees | \$ 2,343,219 | 1,282,126 | 3,625,345 | 26,153 |
| Cash received from other revenues | 336,171 | 20,389 | 356,560 | - |
| Cash paid for personal services | (216,092) | (216,720) | (432,812) | - |
| Cash paid to suppliers | (1,847,679) | (590,092) | (2,437,771) | (58,707) |
| Net cash provided (used) by operating activities | 615,619 | 495,703 | 1,111,322 | (32,554) |
| Cash flows from capital and related financing activities: | | | | |
| Acquisition of capital assets | (38,234) | (6,070,490) | (6,108,724) | - |
| Special assessments | - | 20,031 | 20,031 | - |
| Service connection fees | 111,628 | 284,816 | 396,444 | - |
| Revenue bond/note proceeds | - | 4,505,316 | 4,505,316 | - |
| General obligation bond proceeds | - | 892,197 | 892,197 | - |
| Reimbursements from others | - | 128,500 | 128,500 | - |
| Principal paid on revenue bonds and notes | (185,000) | (232,000) | (417,000) | - |
| Principal paid on general obligation bonds | - | (170,400) | (170,400) | - |
| Interest paid on revenue bonds and notes | (247,602) | (62,613) | (310,215) | - |
| Interest paid on general obligation bonds | - | (94,300) | (94,300) | - |
| Net cash used for capital and related financing activities | (359,208) | (798,943) | (1,158,151) | - |
| Cash flows from investing activities: | | | | |
| Interest on investments | 124,732 | 84,845 | 209,577 | - |
| Net increase (decrease) in cash and cash equivalents | 381,143 | (218,395) | 162,748 | (32,554) |
| Cash and cash equivalents beginning of year | 3,188,064 | 3,034,639 | 6,222,703 | 154,712 |
| Cash and cash equivalents end of year | \$ 3,569,207 | 2,816,244 | 6,385,451 | 122,158 |

See notes to financial statements.

City of Johnston
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2006

| | Business Type | | | Governmental |
|--|---------------|-----------|-----------|--------------|
| | Activities | | | Activities |
| | Enterprise | | | Internal |
| | Water | Sewer | Total | Service |
| Reconciliation of operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Operating income (loss) | \$ 249,209 | 258,778 | 507,987 | (28,598) |
| Adjustments to reconcile operating income (loss) to net cash provided (used) by operating activities: | | | | |
| Depreciation | 319,558 | 320,582 | 640,140 | - |
| (Increase) in customer accounts and unbilled usage and other accounts receivable | (147,908) | (53,344) | (201,252) | - |
| Decrease in due from other governments | 3,980 | - | 3,980 | - |
| Decrease in inventories | 24,318 | - | 24,318 | - |
| (Increase) in prepaid expenses | (1,307) | (1,297) | (2,604) | - |
| Increase (decrease) in accounts payable | 14,930 | 9,107 | 24,037 | (3,956) |
| (Decrease) in salaries payable | (1,564) | (1,563) | (3,127) | - |
| (Decrease) in contract payables | - | (38,133) | (38,133) | - |
| Increase in compensated absences | 1,560 | 1,559 | 3,119 | - |
| (Decrease) in customer deposits | (260) | - | (260) | - |
| Increase in due to other governments | 153,103 | 14 | 153,117 | - |
| Net cash provided (used) by operating activities | \$ 615,619 | 495,703 | 1,111,322 | (32,554) |
| 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 | \$ 2,681,527 | 2,054,495 | 4,736,022 | 122,158 |
| Restricted assets: | | | | |
| Cash and pooled investments: | 887,680 | 761,749 | 1,649,429 | - |
| | \$ 3,569,207 | 2,816,244 | 6,385,451 | 122,158 |

Non-cash investing, capital, and financing activities:

During the year ended June 30, 2006, developers contributed water main and sanitary sewer extensions totaling \$1,422,404 and \$1,405,622 respectively, to the Enterprise, Water and Sewer Funds. In addition, capital project funds contributed water main and sanitary sewer extensions totaling \$471,778 and \$74,454, respectively, to the Enterprise, Water and Sewer Funds.

City of Johnston

Notes to Financial Statements

June 30, 2006

(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 Metropolitan Planning Organization and the Des Moines Metropolitan Wastewater Reclamation Authority, a joint venture.

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 represents taxes collected by the County but not remitted to the City at June 30, 2006 and unpaid taxes. The succeeding year property tax receivable represents 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, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2005.

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 City) 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, other receivables not collected within sixty days after year end and unspent grant proceeds.

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 and unspent grant proceeds.

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, 2006. 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, 2006, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2006 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 \$15,872,892 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, 2006 was as follows:

| | Balance Beginning of of Year (as restated) | Increases | Decreases | Balance End of Year |
|--|---|------------|-----------|---------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 2,851,704 | 170,686 | - | 3,022,390 |
| Construction in progress | 1,370,037 | 7,675,632 | (594,519) | 8,451,150 |
| Total capital assets not being depreciated | 4,221,741 | 7,846,318 | (594,519) | 11,473,540 |
| Capital assets being depreciated: | | | | |
| Buildings | 7,749,410 | 406,283 | - | 8,155,693 |
| Improvements other than buildings | 319,680 | 172,834 | - | 492,514 |
| Equipment and vehicles | 4,652,492 | 550,615 | (337,853) | 4,865,254 |
| Infrastructure, road network | 53,177,467 | 3,994,749 | - | 57,172,216 |
| Infrastructure, other | 663,611 | - | - | 663,611 |
| Total capital assets being depreciated | 66,562,660 | 5,124,481 | (337,853) | 71,349,288 |
| Less accumulated depreciation for: | | | | |
| Buildings | 967,616 | 182,349 | - | 1,149,965 |
| Improvements other than buildings | 41,515 | 22,476 | - | 63,991 |
| Equipment and vehicles | 2,172,997 | 408,930 | (310,446) | 2,271,481 |
| Infrastructure, road network | 9,305,817 | 1,472,095 | - | 10,777,912 |
| Infrastructure, other | 203,280 | 33,181 | - | 236,461 |
| Total accumulated depreciation | 12,691,225 | 2,119,031 | (310,446) | 14,499,810 |
| Total capital assets being depreciated, net | 53,871,435 | 3,005,450 | (27,407) | 56,849,478 |
| Governmental activities capital assets, net | \$ 58,093,176 | 10,851,768 | (621,926) | 68,323,018 |
| Business type activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land | \$ 7,747 | 52,431 | - | 60,178 |
| Construction in progress | 623,264 | 7,438,374 | (54,900) | 8,006,738 |
| Total capital assets not being depreciated | 631,011 | 7,490,805 | (54,900) | 8,066,916 |
| Capital assets being depreciated: | | | | |
| Equipment and vehicles | 276,263 | 52,798 | (11,240) | 317,821 |
| Infrastructure, water and sewer network | 29,972,166 | 2,882,926 | - | 32,855,092 |
| Total capital assets being depreciated | 30,248,429 | 2,935,724 | (11,240) | 33,172,913 |
| Less accumulated depreciation for: | | | | |
| Equipment and vehicles | 131,926 | 31,924 | (11,240) | 152,610 |
| Infrastructure, water and sewer network | 4,596,295 | 608,216 | - | 5,204,511 |
| Total accumulated depreciation | 4,728,221 | 640,140 | (11,240) | 5,357,121 |
| Total capital assets being depreciated, net | 25,520,208 | 2,295,584 | - | 27,815,792 |
| Business type activities capital assets, net | \$ 26,151,219 | 9,786,389 | (54,900) | 35,882,708 |

Depreciation expense was charged to the following functions:

| | |
|---|--------------------|
| Governmental activities: | |
| Public safety | \$ 155,970 |
| Public works | 1,735,160 |
| Culture and recreation | 193,867 |
| Community and economic development | 10,266 |
| General government | <u>23,768</u> |
| Total depreciation expense - governmental activities | <u>\$2,119,031</u> |
| Business type activities: | |
| Water | \$ 319,558 |
| Sewer | <u>320,582</u> |
| Total depreciation expense - business type activities | <u>\$ 640,140</u> |

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2006 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 | \$ 34,835,300 | - | 2,549,600 | 32,285,700 | 2,950,100 |
| Compensated absences | 230,618 | 353,160 | 323,185 | 260,593 | 207,680 |
| Total | <u>\$ 35,065,918</u> | <u>353,160</u> | <u>2,872,785</u> | <u>32,546,293</u> | <u>3,157,780</u> |

The July 1, 2005 long-term liabilities balance for governmental activities has been restated, as follows:

| | |
|--|----------------------|
| Balance June 30, 2005, as previously reported | \$ 35,595,618 |
| General obligation bonds reclassified to business type activities | <u>(529,700)</u> |
| Balance July 1, 2005, as restated | <u>\$ 35,065,918</u> |

| | Balance Beginning of Year (as restated) | Increases | Decreases | Balance End of Year | Due Within One Year |
|--------------------------------|---|------------------|----------------|---------------------------|------------------------|
| Business type activities: | | | | | |
| General obligation bonds/notes | \$ 1,764,700 | 900,000 | 170,400 | 2,494,300 | 239,900 |
| Revenue bonds/notes | 6,138,973 | 4,510,378 | 417,000 | 10,232,351 (1) | 574,000 |
| Compensated absences | 12,669 | 51,699 | 48,580 | 15,788 | 15,682 |
| Total | <u>\$ 7,916,342</u> | <u>5,462,077</u> | <u>635,980</u> | <u>12,742,439</u> | <u>829,582</u> |

(1) Bonds were sold at a discount; unamortized discount at June 30, 2006 totaled \$65,965.

The July 1, 2005 long-term liabilities balance for business type activities has been restated as follows:

| | |
|---|--------------|
| Balance July 1, 2005, as previously reported | \$ 7,386,642 |
| General obligation bonds reclassified from governmental activities | 529,700 |
| Balance July 1, 2005, as restated | \$ 7,916,342 |

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 \$32,285,700 as of June 30, 2006. The portion of unmatured general obligation bonds expected to be repaid from business type activities and accounted for in the Enterprise Funds totaled \$2,494,300 at June 30, 2006. 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.

Twelve 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, 2006 are as follows:

| Obligation | Date of Issue | Interest Rates | Final Due Date | Annual Payments | Amount | |
|---|---------------|----------------|----------------|-----------------|-------------------|---------------------------|
| | | | | | Originally Issued | Outstanding June 30, 2006 |
| General obligation bonds/notes: | | | | | | |
| Essential corporate purpose | Nov 1, 1996 | 4.90-5.25% | June 1, 2012 | 60,000-255,000 | \$ 2,070,000 | 1,330,000 |
| Essential corporate purpose | Aug 1, 1998 | 4.00-4.50 | June 1, 2013 | 225,000-370,000 | 3,780,000 | 2,295,000 |
| Essential corporate purpose | Aug 1, 1998 | 5.90-6.35 | June 1, 2008 | 35,000-50,000 | 340,000 | 100,000 |
| Refunding | Dec 1, 1998 | 4.10-4.35 | June 1, 2012 | 65,100-93,000 | 760,300 | 455,700 |
| Essential corporate purpose | Feb 1, 1999 | 4.00-4.50 | June 1, 2014 | 65,000-160,000 | 1,785,000 | 1,100,000 |
| Essential corporate purpose | Oct 1, 1999 | 4.80-5.20 | June 1, 2015 | 85,000-170,000 | 1,800,000 | 1,235,000 |
| General and essential corporate purpose | Apr 15, 2000 | 4.75-5.35 | June 1, 2015 | 465,000-905,000 | 9,155,000 | 6,600,000 |
| Essential corporate purpose | Mar 1, 2001 | 3.65-4.80 | June 1, 2016 | 175,000-320,000 | 3,360,000 | 2,590,000 |
| Essential corporate purpose | Dec 1, 2001 | 3.00-4.40 | June 1, 2016 | 115,000-190,000 | 2,060,000 | 1,580,000 |
| Essential corporate purpose | Oct 1, 2002 | 2.00-3.95 | June 1, 2017 | 265,000-430,000 | 4,655,000 | 3,840,000 |
| Essential corporate purpose and refunding notes | May 15, 2004 | 2.00-4.00 | June 1, 2014 | 225,000-680,000 | 3,245,000 | 2,165,000 |
| Essential corporate purpose | Jun 1, 2005 | 3.75-4.00 | June 1, 2021 | 465,000-775,000 | 8,995,000 | 8,995,000 |
| Total governmental activities | | | | | | \$ 32,285,700 |

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 |
|----------------------------|--------------|-----------|------------|
| 2007 | \$ 2,950,100 | 1,374,991 | 4,325,091 |
| 2008 | 2,975,100 | 1,256,194 | 4,231,294 |
| 2009 | 2,925,100 | 1,133,680 | 4,058,780 |
| 2010 | 3,047,500 | 1,009,188 | 4,056,688 |
| 2011 | 3,203,000 | 878,516 | 4,081,516 |
| 2012-2016 | 13,174,900 | 2,351,727 | 15,526,627 |
| 2017-2021 | 4,010,000 | 455,763 | 4,465,763 |
| Total | \$32,285,700 | 8,460,059 | 40,745,759 |

Business Type Activities:

Five issues of unmatured general obligation bonds totaling \$2,494,300 and payable from the Enterprise Fund are outstanding at June 30, 2006. These bonds bear interest at rates ranging from 1.90% to 5.20% and mature in varying annual amounts ranging from \$20,000 to \$84,000, with final maturities due in the year ending June 30, 2020.

Five issues of unmatured revenue bonds/notes totaling \$10,298,316 are outstanding at June 30, 2006. These bonds/notes bear interest at rates ranging from 3.00% to 5.40% and mature in varying annual amounts ranging from \$55,000 to \$470,000, with final maturities due in the year ending June 30, 2026.

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, 2006, 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, 2006 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: | | | | | | |
| Refunding | Dec 1, 1998 | 4.10-4.35% | June 1, 2012 | \$ 39,900-55,100 | \$ 309,700 | 279,300 |
| Essential corporate purpose | Oct 1, 1999 | 4.80-5.20 | June 1, 2015 | 20,000-40,000 | 450,000 | 310,000 |
| Refunding notes | Oct 1, 2003 | 1.90-3.90 | June 1, 2013 | 20,000-30,000 | 265,000 | 195,000 |
| Essential corporate purpose and refunding bonds | May 15, 2004 | 2.00-4.00 | June 1, 2014 | 25,000-30,000 | 900,000 | 810,000 |
| Essential corporate purpose | Aug 1, 2005 | 3.05-4.10 | June 1, 2020 | 50,000-84,000 | 900,000 | 900,000 |
| | | | | | | 2,494,300 |
| Revenue bonds/notes: | | | | | | |
| Water | Jun 1, 1997 | 4.50-5.40 | June 1, 2013 | 55,000-120,000 | 1,245,000 | 710,000 |
| Water | Sep 1, 2001 | 4.30-4.90 | June 1, 2021 | 50,000-470,000 | 4,580,000 | 4,345,000 |
| Sewer | Oct 1, 2003 | 1.50-3.65 | June 1, 2013 | 100,000-135,000 | 1,170,000 | 870,000 |
| Sewer | May 17, 2005 | 3.00 | June 1, 2025 | 132,000-231,000 | 3,535,000 | 3,403,000 |
| Sewer | May 1, 2006 | 3.00 | June 1, 2026 | 104,000-183,000 | 970,316 | 970,316 |
| | | | | | | 10,298,316 |
| Total business type activities | | | | | | \$ 12,792,616 |

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 |
| 2007 | \$ 239,900 | 95,579 | 335,479 | 470,000 | 369,529 | 839,529 |
| 2008 | 239,900 | 87,566 | 327,466 | 500,000 | 351,753 | 851,753 |
| 2009 | 244,900 | 79,390 | 324,290 | 519,000 | 332,554 | 851,554 |
| 2010 | 257,500 | 70,172 | 327,672 | 543,000 | 312,438 | 855,438 |
| 2011 | 282,000 | 60,313 | 342,313 | 557,000 | 291,343 | 848,343 |
| 2012-2016 | 920,100 | 150,351 | 1,070,451 | 2,755,000 | 1,118,552 | 3,873,552 |
| 2017-2021 | 310,000 | 31,653 | 341,653 | 3,101,000 | 541,800 | 3,642,800 |
| 2022-2026 | - | - | - | 883,000 | 67,230 | 950,230 |
| Total | \$ 2,494,300 | 575,023 | 3,069,323 | 9,328,000 | 3,385,199 | 12,713,199 |

Sewer Revenue Capital Loan Note

On May 5, 2006, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for the issuance of \$2,800,000 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 receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2006, the City had drawn \$970,316 of the \$2,800,000 authorized.

Wells Fargo Bank, 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, N.A. The total initiation fee was withheld by the bank from the first proceeds of the sewer revenue capital loan notes. Since the City has not fully drawn funds on the sewer revenue capital loan notes, a final 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.

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 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 \$20,030,000 as of June 30, 2006. The City of Johnston has a commitment for approximately \$275,647, or 1.38%, 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, 2006, 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 \$756,097, or 1.13%. 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, 2006, the WRA had \$12,824,000 in outstanding State Revolving Loans, of which \$87,911 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, an investment in the joint venture will not be reported by the City. 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, 2006 is as follows:

| Transfer to | Transfer from | Amount |
|-----------------------|---------------------------------------|---------------------|
| Special Revenue: | | |
| Senior Citizens | General | 2,145 |
| Community Improvement | General | 15,000 |
| | | <u>17,145</u> |
| Debt Service | Special Revenue: | |
| | Urban Renewal Tax Increment Financing | \$ 1,118,401 |
| | Capital Projects | 17,869 |
| | | <u>1,136,270</u> |
| Capital Projects | General | 123,199 |
| | Special Revenue: | |
| | Urban Renewal Tax Increment Financing | 787,665 |
| | Sidewalk | 25,287 |
| | Northwest Park District | 96,500 |
| | | <u>1,032,651</u> |
| Total | | <u>\$ 2,186,066</u> |

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend 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 \$10,965,941.

The City has rebated a total of \$6,341,189 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2006 was \$4,624,752.

(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, 2006, the City had loaned \$412,570 under the agreements and forgiven \$345,540 of the loans, leaving a balance of \$67,030.

(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, 2006, 2005 and 2004 were \$234,594, \$182,350 and \$150,945, respectively, equal to the required contributions for each year.

(10) Industrial Development Revenue Bonds

The City has issued a total of \$9,500,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$7,072,055 is outstanding at June 30, 2006. 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 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 Employee Benefit Services from the Internal Service, Health Deductible Claims Fund. The City did not make a contribution to the fund for the year ended June 30, 2006.

Amounts payable from the Internal Service, Health Deductible Claims Fund at June 30, 2006 total \$1,518, 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, 2005 | \$ 5,474 |
| Incurred claims | 28,442 |
| Payments on claims during the fiscal year | <u>32,398</u> |
| Unpaid claims at June 30, 2006 | <u>\$ 1,518</u> |

(12) Contractual Commitments

The City has entered into construction contracts totaling \$15,173,106 for street and sewer construction projects. As of June 30, 2006, costs of \$10,951,012 have been incurred on the projects. The balance on the contracts of \$4,222,094 will be paid as work on the projects progresses.

(13) Pending Litigation

The City is a defendant in certain lawsuits. The probability and amount of loss, if any, is indeterminable.

(14) Restatements

Beginning net assets for governmental and business type activities have been restated due to errors in reporting capital assets and related accumulated depreciation in the prior year, an error in reporting amounts due from other governments and adjustments to reclassify certain outstanding debt from a governmental activities obligation to a business type activities obligation. The restatements increased the beginning net assets of the governmental activities and business type activities as follows:

Governmental activities:

| | |
|---|----------------------|
| Net assets, June 30, 2005, as previously reported: | \$ 39,075,443 |
| Correction of prior year capital assets and related accumulated depreciation for capital assets acquired from the Polk County Fire District | 946,133 |
| 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>529,700</u> |
| Net assets, July 1, 2005, as restated | <u>\$ 40,551,276</u> |

Business type activities and Enterprise, Sewer Fund:

| | <u>Business Type</u> | <u>Enterprise -</u> |
|---|----------------------|---------------------|
| | Activities | Sewer |
| Net assets, June 30, 2005, as previously reported: | \$ 25,775,879 | 13,489,724 |
| Due from other governments increased to include amounts owed to the City by Polk County for the NW Beaver Drive sewer project. | 668,000 | 668,000 |
| General obligation bonds/notes payable increased due to a reclassification of certain outstanding debt from a governmental activities obligation to a business type activities obligation | <u>(529,700)</u> | <u>(529,700)</u> |
| Net assets, July 1, 2005, as restated | <u>\$ 25,914,179</u> | <u>13,628,024</u> |

(15) Subsequent Events

In July 2006, the City approved a \$259,640 contract for NW 78th Court and Eagle Point Drainage Improvements.

In September 2006, the City issued \$6,210,000 of general obligation bonds to finance various street, sanitary sewer and storm drainage construction projects.

In September 2006, the City issued \$3,625,000 of general obligation refunding capital loan notes.

Required Supplementary Information

City of Johnston

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

Required Supplementary Information

Year ended June 30, 2006

| | Governmental Funds Actual | Enterprise Funds Actual | Total Actual |
|---|---------------------------------|-------------------------------|-------------------|
| Receipts: | | | |
| Property tax | \$ 6,898,257 | - | 6,898,257 |
| Tax increment financing | 2,388,929 | - | 2,388,929 |
| Other city tax | 724,400 | - | 724,400 |
| Licenses and permits | 668,837 | - | 668,837 |
| Use of money and property | 586,009 | 209,576 | 795,585 |
| Intergovernmental | 1,823,843 | 87,480 | 1,911,323 |
| Charges for service | 165,908 | 4,023,498 | 4,189,406 |
| Special assessments | 323,856 | 20,031 | 343,887 |
| Miscellaneous | 357,306 | 399,893 | 757,199 |
| Total receipts | <u>13,937,345</u> | <u>4,740,478</u> | <u>18,677,823</u> |
| Disbursements: | | | |
| Public safety | 1,994,210 | - | 1,994,210 |
| Public works | 1,765,607 | - | 1,765,607 |
| Health and social services | 31,915 | - | 31,915 |
| Culture and recreation | 1,691,062 | - | 1,691,062 |
| Community and economic development | 770,644 | - | 770,644 |
| General government | 1,187,794 | - | 1,187,794 |
| Debt service | 5,267,748 | - | 5,267,748 |
| Capital projects | 7,673,863 | - | 7,673,863 |
| Business type activities | - | 9,709,712 | 9,709,712 |
| Total disbursements | <u>20,382,843</u> | <u>9,709,712</u> | <u>30,092,555</u> |
| Excess (deficiency) of receipts over (under) disbursements | (6,445,498) | (4,969,234) | (11,414,732) |
| Other financing sources, net | 267,931 | 5,131,982 | 5,399,913 |
| Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses | (6,177,567) | 162,748 | (6,014,819) |
| Balances beginning of year | <u>16,335,665</u> | <u>6,222,703</u> | <u>22,558,368</u> |
| Balances end of year | <u>\$ 10,158,098</u> | <u>6,385,451</u> | <u>16,543,549</u> |

See accompanying independent auditor's report.

| Less Funds not Required to be Budgeted | Total Net | Budgeted Amounts | | Final to Actual Variance |
|---|--------------|------------------|--------------|--------------------------------|
| | | Original | Final | |
| - | 6,898,257 | 6,966,013 | 6,966,013 | (67,756) |
| - | 2,388,929 | 2,605,736 | 2,465,206 | (76,277) |
| - | 724,400 | 598,806 | 633,806 | 90,594 |
| - | 668,837 | 533,851 | 610,196 | 58,641 |
| 6,342 | 789,243 | 141,935 | 726,531 | 62,712 |
| - | 1,911,323 | 2,246,288 | 1,931,748 | (20,425) |
| - | 4,189,406 | 3,882,600 | 4,317,702 | (128,296) |
| - | 343,887 | 188,212 | 254,468 | 89,419 |
| 33,280 | 723,919 | 448,571 | 658,060 | 65,859 |
| 39,622 | 18,638,201 | 17,612,012 | 18,563,730 | 74,471 |
| - | 1,994,210 | 2,050,683 | 2,142,957 | 148,747 |
| - | 1,765,607 | 1,597,193 | 1,963,596 | 197,989 |
| - | 31,915 | 45,354 | 48,900 | 16,985 |
| 14,166 | 1,676,896 | 1,801,058 | 1,754,984 | 78,088 |
| - | 770,644 | 2,801,971 | 1,110,480 | 339,836 |
| - | 1,187,794 | 1,146,729 | 1,234,881 | 47,087 |
| - | 5,267,748 | 3,921,102 | 5,269,396 | 1,648 |
| - | 7,673,863 | 15,680,530 | 9,503,376 | 1,829,513 |
| - | 9,709,712 | 6,484,586 | 10,912,136 | 1,202,424 |
| 14,166 | 30,078,389 | 35,529,206 | 33,940,706 | 3,862,317 |
| 25,456 | (11,440,188) | (17,917,194) | (15,376,976) | 3,936,788 |
| - | 5,399,913 | 9,512,500 | 6,035,498 | (635,585) |
| 25,456 | (6,040,275) | (8,404,694) | (9,341,478) | 3,301,203 |
| 205,820 | 22,352,548 | 18,427,047 | 22,352,548 | - |
| 231,276 | 16,312,273 | 10,022,353 | 13,011,070 | 3,301,203 |

City of Johnston
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2006

| | Governmental Funds | | |
|--------------------------------|--------------------|-------------|------------------|
| | Cash | Accrual | Modified |
| | Basis | Adjustments | Accrual Basis |
| Revenues | \$ 13,937,345 | 335,942 | 14,273,287 |
| Expenditures | 20,382,843 | 447,903 | 20,830,746 |
| Net | (6,445,498) | (111,961) | (6,557,459) |
| Other financing sources (uses) | 267,931 | (265,531) | 2,400 |
| Beginning fund balances | 16,335,665 | (385,332) | 15,950,333 |
| Ending fund balances | \$ 10,158,098 | (762,824) | 9,395,274 |

| | Proprietary Funds | | |
|-----------------------------------|-------------------|-------------|------------|
| | Enterprise | | |
| | Cash | Accrual | Accrual |
| | Basis | Adjustments | Basis |
| Revenues | \$ 4,740,478 | 3,420,899 | 8,161,377 |
| Expenses | 9,709,712 | (5,600,623) | 4,109,089 |
| Net | (4,969,234) | 9,021,522 | 4,052,288 |
| Other financing sources (uses) | 5,131,982 | (5,131,982) | - |
| Beginning net assets, as restated | 6,222,703 | 19,691,476 | 25,914,179 |
| Ending net assets | \$ 6,385,451 | 23,581,016 | 29,966,467 |

See accompanying independent auditor's report.

City of Johnston

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2006

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and the blended component unit. 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 decreased budgeted disbursements by \$1,588,500. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2006, 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, 2006

| | Road Use Tax | Police | Law Enforcement Block Grant | East Park District | Northridge Park District |
|--|--------------------|---------------|--------------------------------------|-----------------------|-----------------------------|
| Assets | | | | | |
| Cash and pooled investments: | | | | | |
| City officials | \$ 381,875 | 46,555 | 1,344 | 66,150 | 116,918 |
| Library Foundation | - | - | - | - | - |
| Receivables: | | | | | |
| Accounts | - | - | 170 | - | - |
| Accrued interest | - | 180 | 5 | 258 | 455 |
| Due from other governments | 88,647 | - | - | - | - |
| Total assets | \$ 470,522 | 46,735 | 1,519 | 66,408 | 117,373 |
| Liabilities and Fund Equity | | | | | |
| Liabilities: | | | | | |
| Accounts payable | \$ 23,418 | - | - | - | - |
| Salaries and benefits payable | 1,878 | - | - | - | - |
| Total liabilities | 25,296 | - | - | - | - |
| Fund equity: | | | | | |
| Fund balances: | | | | | |
| Unreserved, undesignated | 445,226 | 46,735 | 1,519 | 66,408 | 117,373 |
| Total liabilities and fund equity | \$ 470,522 | 46,735 | 1,519 | 66,408 | 117,373 |

See accompanying independent auditor's report.

| Northwest Park District | Southwest Park District | Senior Citizens | Library | Community Improvement | Library Foundation | Total |
|----------------------------|----------------------------|--------------------|---------|--------------------------|-----------------------|-----------|
| 53,743 | 13,680 | 3,289 | 70,085 | 12,442 | - | 766,081 |
| - | - | - | - | - | 231,276 | 231,276 |
| - | - | - | 5,835 | - | - | 6,005 |
| 208 | 53 | 12 | 271 | 47 | - | 1,489 |
| - | - | - | - | - | - | 88,647 |
| 53,951 | 13,733 | 3,301 | 76,191 | 12,489 | 231,276 | 1,093,498 |
| - | - | 165 | - | - | - | 23,583 |
| - | - | - | - | 893 | - | 2,771 |
| - | - | 165 | - | 893 | - | 26,354 |
| 53,951 | 13,733 | 3,136 | 76,191 | 11,596 | 231,276 | 1,067,144 |
| 53,951 | 13,733 | 3,301 | 76,191 | 12,489 | 231,276 | 1,093,498 |

City of Johnston

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

Year ended June 30, 2006

| | Road Use Tax | Police | Law Enforcement Block Grant | East Park District |
|---|--------------------|---------------|--------------------------------------|-----------------------|
| Revenues: | | | | |
| Use of money and property | \$ - | 1,667 | 45 | 2,033 |
| Intergovernmental | 970,986 | 21,272 | - | - |
| Charges for services | - | 2,156 | - | - |
| Miscellaneous | - | - | 254 | 23,900 |
| Total revenues | <u>970,986</u> | <u>25,095</u> | <u>299</u> | <u>25,933</u> |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety | - | 12,829 | - | - |
| Public works | 808,779 | - | - | - |
| Culture and recreation | - | - | - | - |
| Community and economic development | - | - | - | - |
| Total expenditures | <u>808,779</u> | <u>12,829</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues over (under) expenditures | <u>162,207</u> | <u>12,266</u> | <u>299</u> | <u>25,933</u> |
| Other financing sources (uses): | | | | |
| Operating transfers in | - | - | - | - |
| Operating transfers out | - | - | - | - |
| Total other financing sources (uses) | <u>-</u> | <u>-</u> | <u>-</u> | <u>-</u> |
| Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses | 162,207 | 12,266 | 299 | 25,933 |
| Fund balances beginning of year | <u>283,019</u> | <u>34,469</u> | <u>1,220</u> | <u>40,475</u> |
| Fund balances end of year | <u>\$ 445,226</u> | <u>46,735</u> | <u>1,519</u> | <u>66,408</u> |

See accompanying independent auditor's report.

| Northridge Park District | Northwest Park District | Southwest Park District | Senior Citizens | Library | Community Improvement | Sidewalk | Library Foundation | Total |
|-----------------------------|----------------------------|----------------------------|--------------------|---------|--------------------------|----------|-----------------------|-----------|
| 3,453 | 4,605 | 324 | 114 | 29,193 | 3,512 | 707 | 6,342 | 51,995 |
| - | - | - | - | - | - | - | - | 992,258 |
| - | - | - | - | - | - | - | - | 2,156 |
| 50,151 | - | 6,668 | 1,998 | - | 5,025 | - | 33,280 | 121,276 |
| 53,604 | 4,605 | 6,992 | 2,112 | 29,193 | 8,537 | 707 | 39,622 | 1,167,685 |
| - | - | - | - | - | - | - | - | 12,829 |
| - | - | - | - | - | - | - | - | 808,779 |
| - | - | - | 4,171 | - | - | - | 14,166 | 18,337 |
| - | - | - | - | - | 28,145 | - | - | 28,145 |
| - | - | - | 4,171 | - | 28,145 | - | 14,166 | 868,090 |
| 53,604 | 4,605 | 6,992 | (2,059) | 29,193 | (19,608) | 707 | 25,456 | 299,595 |
| - | - | - | 2,145 | - | 15,000 | - | - | 17,145 |
| - | (96,500) | - | - | - | - | (25,287) | - | (121,787) |
| - | (96,500) | - | 2,145 | - | 15,000 | (25,287) | - | (104,642) |
| 53,604 | (91,895) | 6,992 | 86 | 29,193 | (4,608) | (24,580) | 25,456 | 194,953 |
| 63,769 | 145,846 | 6,741 | 3,050 | 46,998 | 16,204 | 24,580 | 205,820 | 872,191 |
| 117,373 | 53,951 | 13,733 | 3,136 | 76,191 | 11,596 | - | 231,276 | 1,067,144 |

Schedule 3

City of Johnston
Combining Schedule of Net Assets
Internal Service Funds

June 30, 2006

| | Flexible Spending | Health Deductible Claims | Total |
|-----------------------------|----------------------|--------------------------------|---------|
| Assets | | | |
| Current assets: | | | |
| Cash and pooled investments | \$ 2,442 | 119,716 | 122,158 |
| Liabilities | | | |
| Current liabilities: | | | |
| Accounts payable | - | 1,518 | 1,518 |
| Net Assets | | | |
| Unrestricted | \$ 2,442 | 118,198 | 120,640 |

See accompanying independent auditor's report.

City of Johnston

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

Year ended June 30, 2006

| | Flexible Spending | Health Deductible Claims | Total |
|------------------------------------|----------------------|--------------------------------|----------|
| Operating revenues: | | | |
| Miscellaneous: | | | |
| Contributions from employees | \$ 26,153 | - | 26,153 |
| Operating expenses: | | | |
| Governmental activities: | | | |
| Public safety | 2,426 | 9,240 | 11,666 |
| Public works | 2,448 | 5,146 | 7,594 |
| Culture and recreation | 6,895 | 6,755 | 13,650 |
| Community and economic development | 2,305 | 4,502 | 6,807 |
| General government | 8,279 | 6,755 | 15,034 |
| Total operating expenses | 22,353 | 32,398 | 54,751 |
| Operating income (loss) | 3,800 | (32,398) | (28,598) |
| Net assets beginning of year | (1,358) | 150,596 | 149,238 |
| Net assets end of year | \$ 2,442 | 118,198 | 120,640 |

See accompanying independent auditor's report.

Schedule 5

City of Johnston
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2006

| | Flexible Spending | Health Deductible Claims | Total |
|---|----------------------|--------------------------------|----------|
| Cash flows from operating activities: | | | |
| Cash received from employees | \$ 26,153 | - | 26,153 |
| Cash paid to suppliers | (22,353) | (36,354) | (58,707) |
| Net cash provided by (used for) operating activities and net increase (decrease) in cash and cash equivalents | 3,800 | (36,354) | (32,554) |
| Cash and cash equivalents beginning of year | (1,358) | 156,070 | 154,712 |
| Cash and cash equivalents end of year | \$ 2,442 | 119,716 | 122,158 |
| Reconciliation of operating income (loss) to net cash provided by (used for) operating activities: | | | |
| Operating income (loss) | \$ 3,800 | (32,398) | (28,598) |
| Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities: (Decrease) in accounts payable | - | (3,956) | (3,956) |
| Net cash provided by (used for) operating activities | \$ 3,800 | (36,354) | (32,554) |

See accompanying independent auditor's report.

City of Johnston

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

For the Last Four Years

| | Modified Accrual Basis | | | |
|---------------------------------------|------------------------|-------------------|-------------------|-------------------|
| | 2006 | 2005 | 2004 | 2003 |
| Revenues: | | | | |
| Property tax | \$ 6,972,821 | 6,515,097 | 5,646,674 | 4,746,228 |
| Tax increment financing | 2,459,927 | 3,301,694 | 3,401,251 | 4,261,942 |
| Other city tax | 738,623 | 513,823 | 616,366 | 617,209 |
| Licenses and permits | 680,312 | 641,324 | 592,293 | 460,251 |
| Use of money and property | 602,449 | 230,754 | 103,509 | 88,204 |
| Intergovernmental | 1,938,177 | 927,284 | 1,773,123 | 1,077,389 |
| Charges for service | 120,298 | 124,188 | 197,092 | 139,542 |
| Special assessments | 337,237 | 301,700 | 164,721 | 578,576 |
| Miscellaneous | 423,443 | 309,137 | 410,718 | 419,570 |
| Total | \$ 14,273,287 | 12,865,001 | 12,905,747 | 12,388,911 |
| Expenditures: | | | | |
| Operating: | | | | |
| Public safety | \$ 1,989,562 | 2,340,892 | 1,200,395 | 1,262,863 |
| Public works | 1,696,756 | 1,959,415 | 1,333,547 | 1,172,312 |
| Health and social service | 30,827 | 45,633 | 36,664 | 50,566 |
| Culture and recreation | 1,684,162 | 1,579,669 | 1,360,424 | 1,207,358 |
| Community and economic development | 787,606 | 1,987,849 | 2,515,682 | 1,841,218 |
| General government | 1,129,580 | 914,988 | 883,652 | 889,667 |
| Debt service | 5,002,217 | 3,653,793 | 3,459,911 | 3,085,438 |
| Capital projects | 8,510,036 | 1,744,667 | 2,341,502 | 3,187,030 |
| Total | \$ 20,830,746 | 14,226,906 | 13,131,777 | 12,696,452 |

See accompanying independent auditor's report.

Schedule 7

City of Johnston

Schedule of Expenditures of Federal Awards

Year ended June 30, 2006

| Grantor/Program | CFDA Number | Agency Pass-through Number | Program Expendi- tures |
|---------------------------------------|----------------|----------------------------------|------------------------------|
| Direct: | | | |
| U.S. Department of Justice: | | | |
| Bulletproof Vest Partnership Program | 16.607 | | \$ 3,707 |
| Indirect: | | | |
| U.S. Department of Transportation: | | | |
| Iowa Department of Transportation: | | | |
| Highway Planning and Construction | 20.205 | STP-U-3827(605)--70-77 | 982,909 |
| Iowa Department of Public Safety: | | | |
| State and Community Highway Safety | 20.600 | PAP 05-04, Task 22 | 1,520 |
| State and Community Highway Safety | 20.600 | PAP 06-04, Task 22 | 3,182 |
| | | | 4,702 |
| U.S. Environmental Protection Agency: | | | |
| Iowa Department of Natural Resources: | | | |
| Capitalization Grants for Clean Water | | | |
| State Revolving Funds | 66.458 | CS192234 01,02 | 4,247,402 |
| Total | | | \$ 5,238,720 |

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

See accompanying independent auditor's report.

**Independent Auditor's Report on 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

State Capitol Building
Des Moines, Iowa 50319-0004

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, 2006, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated October 25, 2006. 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 a matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over 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 condition is described in Part II of the accompanying Schedule of Findings and Questioned Costs.

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 condition described above is material weakness.

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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2006 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, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

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 25, 2006

**Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133**

City of Johnston



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

David A. Vaudt, CPA
Auditor of State

State Capitol Building
Des Moines, Iowa 50319-0004

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

Independent Auditor's Report on Compliance with Requirements
Applicable to Each Major Program and on Internal Control over Compliance
in Accordance with OMB Circular A-133

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Johnston, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal programs for the year ended June 30, 2006. The City of Johnston's major federal programs are identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal programs is the responsibility of the City of Johnston's management. Our responsibility is to express an opinion on the City of Johnston's compliance based on our audit.

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

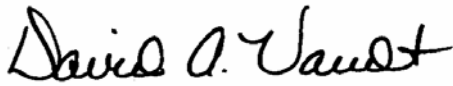
In our opinion, the City of Johnston complied, in all material respects, with the requirements referred to above that are applicable to its major federal programs for the year ended June 30, 2006.

Internal Control over Compliance

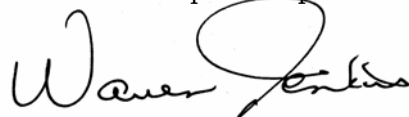
The management of the City of Johnston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Johnston's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

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grant agreements caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Johnston and other parties to whom the City of Johnston may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

October 25, 2006

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) A reportable condition in internal control over financial reporting was disclosed by the audit of the financial statements. The reportable condition is not considered to be a material weakness.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) No material weaknesses in internal control over the major programs were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major programs.
- (f) The audit disclosed no audit findings which were required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major programs were as follows:
 - CFDA Number 20.205 – Highway Planning and Construction
 - CFDA Number 66.458 – Capitalization Grants for Clean Water State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Johnston did not qualify as a low-risk auditee.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part II: Findings Related to the Financial Statements:

REPORTABLE CONDITION:

II-A-06 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 – Clarification of the duties and work flow will be made with the goal of segregating the approval of a building permit from the receipts for the building permits.

Conclusion – Response acknowledged. The City should also consider procedures to segregate processing of approved building permits from collecting and receipting.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

No material weaknesses in internal control over the major programs were noted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-06 Certified Budget – Disbursements during the year ended June 30, 2006 did not exceed the amounts budgeted.
- IV-B-06 Questionable Expenditures – No expenditures we believe may not meet the requirements of public purpose as defined in an Attorney General’s opinion dated April 25, 1979 were noted.
- IV-C-06 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-06 Business Transactions - Business transactions between the City and City officials or employees are detailed as follows:

| Name, Title, and Business Connection | Transaction Description | Amount |
|---|-------------------------|--------------|
| John Temple, Mayor Pro tem, brother is co-owner of Nuckolls Concrete Services, Inc. | Street construction | \$ 5,391,458 |

This transaction does not appear to represent a conflict of interest since it was entered into through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa. The Mayor Pro tem abstained from voting on approval of the contract.

- IV-E-06 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-06 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-06 Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City’s investment policy were noted.
- IV-H-06 Revenue Bonds/Notes – The City has complied with the requirements of the water revenue bond and sewer revenue capital loan note resolutions.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2006

IV-I-06 Other Information Required by Bond Resolution

Insurance – The following insurance policies were in force at June 30, 2006:

| Insurer | Description | Amount | Expiration Date |
|-------------------------|---|--|-----------------|
| EMC Insurance Companies | Automobile coverage: | | |
| | Liability | 1,000,000 | 4/1/07 |
| | Uninsured motorists | 100,000 | 4/1/07 |
| | Underinsured motorists | 100,000 | 4/1/07 |
| | Comprehensive /collision | Lesser of cash value or cost of repair | 4/1/07 |
| | Auto medical payments | 5,000 | 4/1/07 |
| EMC Insurance Companies | Blanket: Building and personal property | 18,470,325 | 4/1/07 |
| EMC Insurance Companies | General liability coverage: | | |
| | General aggregate | 2,000,000 | 4/1/07 |
| | Products aggregate | 2,000,000 | 4/1/07 |
| | Personal/advertising injury | 1,000,000 | 4/1/07 |
| | Each occurrence | 1,000,000 | 4/1/07 |
| | Damage to rented property | 100,000 | 4/1/07 |
| | Medical expense | 5,000 | 4/1/07 |
| EMC Insurance Companies | Commercial crime | | |
| | Employee Theft - Per Employee | 600,000 | 4/1/07 |
| | Forgery or Alteration | 10,000 | 4/1/07 |
| | Inside The Premises | 15,000 | 4/1/07 |
| | Outside the Premises | 15,000 | 4/1/07 |
| | Computer Fraud | 50,000 | 4/1/07 |
| | Funds Transfer Fraud | 50,000 | 4/1/07 |
| EMC Insurance Companies | Inland marine: | | |
| | Contractors equipment | 1,009,329 | 4/1/07 |
| | Rented contacted equipment | 50,000 | 4/1/07 |
| | Miscellaneous property | 431,240 | 4/1/07 |
| | Data processing - equipment | 102,929 | 4/1/07 |
| EMC Insurance Companies | Commercial umbrella: | | |
| | Each occurrence | 5,000,000 | 4/1/07 |
| | General aggregate | 5,000,000 | 4/1/07 |
| | Retained limit | 10,000 | 4/1/07 |
| EMC Insurance Companies | Workers' compensation: | | |
| | Bodily injury by accident | 500,000 | 4/1/07 |
| | Bodily injury by disease each employee | 500,000 | 4/1/07 |
| | Bodily injury by disease policy limit | 500,000 | 4/1/07 |
| EMC Insurance Companies | Linebacker: | | |
| | Each loss | 1,000,000 | 4/1/07 |
| | Aggregate | 1,000,000 | 4/1/07 |

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2006

Statistical Information

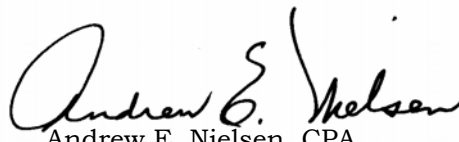
| Description | Amount |
|---|------------------|
| Sewer customers served at June 30, 2006 | 3,920 |
| Sewer rates in effect at June 30, 2006: | |
| Service availability fee per month of \$3.50 plus \$3.23 per 1,000 gallons of water used | |
| For those contributors who contribute wastewater, the strength 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:

Marlys K. Gaston, CPA, Manager
Donna F. Kruger, CPA, Senior Auditor II
Jennifer Campbell, CPA, Senior Auditor II
Jedd D. Moore, Staff Auditor
Ryan J. Sisson, Staff Auditor
Shelley M. Allen, Assistant Auditor
Matthew R. Ritchey, Assistant Auditor
Aaron P. Wagner, Assistant Auditor

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

Andrew E. Nielsen, CPA
Deputy Auditor of State