



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 23, 2009

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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 \$28,278,043 for the year ended June 30, 2008, a 7.6 percent increase over 2007. Revenues included \$9,446,599 from property tax and other city tax, \$286,628 from hotel/motel tax, \$1,518,773 from tax increment financing, \$4,966,594 from charges for service, \$2,023,790 from operating grants, contributions and restricted interest, \$9,335,507 from capital grants, contributions and restricted interest, \$389,167 from unrestricted investment earnings and \$310,985 from other general revenues.

Expenses for City operations totaled \$18,274,772, a 10.3 percent increase over 2007. Expenses included \$4,092,533 for public works, \$2,887,059 for public safety and \$2,235,667 for interest and developer agreement debt. Expenses for business type activities totaled \$4,754,084.

A copy of the audit 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, 2008

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City of Johnston

Officials

(Before January 2008)

<u>Name</u>	<u>Title</u>	<u>Expires</u>
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	Clerk	Indefinite
Timothy Pearson	Attorney	Indefinite

(After January 2008)

Paula Dierenfeld	Mayor	Jan 2010
Gerd Clabaugh	Mayor Pro tem	Jan 2010
Richard Tingley	Council Member	Jan 2010
Bob Culbert	Council Member	Jan 2012
Jim Hibbs	Council Member	Jan 2012
Jon Kallen	Council Member	Jan 2012
James P. Sanders	Administrator	Indefinite
Teresa M. Rotschafer	Finance Director	Indefinite
Stephanie L. Reynolds	Clerk	Indefinite
Timothy Pearson	Attorney	Indefinite

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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, 2008, 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, 2008, 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 January 8, 2009 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 five years ended June 30, 2007 (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

January 8, 2009

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

2008 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds increased \$2,062,973, or approximately 11%, from fiscal 2007 to fiscal 2008. Property tax and intergovernmental revenues increased approximately \$491,700 and \$856,500, respectively, while miscellaneous revenues increased approximately \$808,900.
- Governmental fund expenditures increased \$1,485,094, or approximately 7%, in fiscal 2008 over fiscal 2007. Public works, public safety and debt service expenditures increased approximately \$857,700, \$442,300 and \$384,800, respectively. Capital projects and general government expenditures decreased approximately \$235,800 and \$86,600, respectively.
- The City's net assets increased approximately 12%, or \$10,003,271, from June 30, 2007 to June 30, 2008. Of this amount, the net assets of the governmental activities increased \$8,751,487 and the net assets of the business type activities increased \$1,251,784.

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 governmental 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, health and social service, 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.

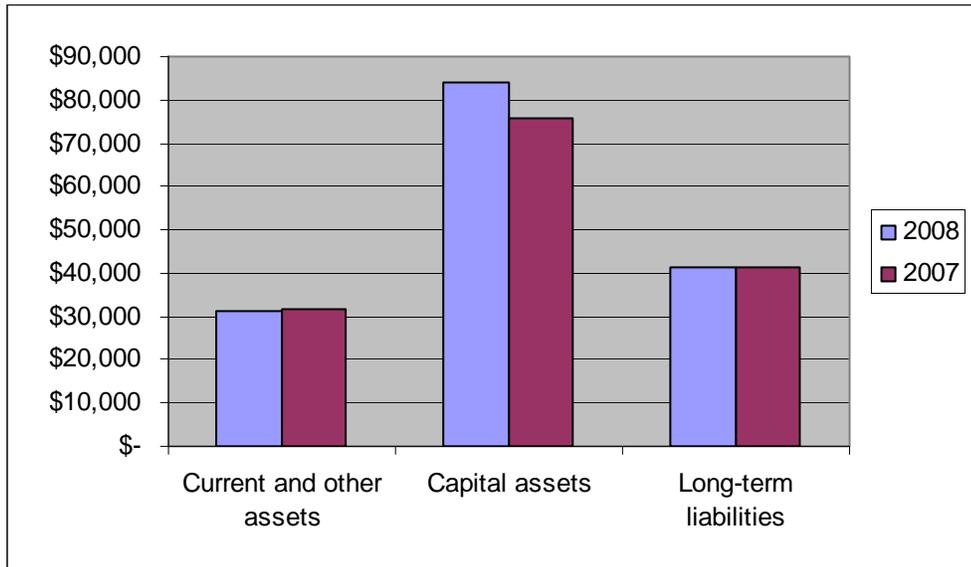
Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

As 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, 2007-2008	
	June 30,		June 30,		June 30,			
2008	2007	2008	2007	2008	2007			
Current and other assets	\$ 31,174	31,689	9,421	11,166	40,595	42,855	-5.3%	
Capital assets	83,960	75,572	39,348	36,890	123,308	112,462	9.6%	
Total assets	115,134	107,261	48,769	48,056	163,903	155,317	5.5%	
Long-term liabilities	41,465	41,453	13,646	14,267	55,111	55,720	-1.1%	
Other liabilities	12,114	13,004	420	338	12,534	13,342	-6.1%	
Total liabilities	53,579	54,457	14,066	14,605	67,645	69,062	-2.1%	
Net assets:								
Invested in capital assets, net of related debt	49,555	42,884	25,794	23,108	75,349	65,992	14.2%	
Restricted	9,497	7,668	3,989	4,349	13,486	12,017	12.2%	
Unrestricted	2,503	2,252	4,920	5,994	7,423	8,246	-10.0%	
Total net assets	\$ 61,555	52,804	34,703	33,451	96,258	86,255	11.6%	

The following chart presents a comparison of governmental activities assets and liabilities for fiscal 2008 and fiscal 2007:



Net assets of governmental activities increased from fiscal 2007 approximately 17%, or \$8,751,487. Net assets of business type activities increased from fiscal 2007 approximately 4%, or \$1,251,784. Total current and other assets decreased approximately \$2,260,000, or 5%, from fiscal 2007, primarily due to bond proceeds held at the end of fiscal 2007 that were spent in fiscal 2008, cash and investments held in escrow were used to refund \$1,260,000 of bonds outstanding and a decrease in due from other governments for the reimbursement due on the NW 70th project which was received during fiscal year 2008. Total capital assets increased over fiscal 2007 approximately \$10,846,000, or 10%, primarily due to progress made on the NW 70th Avenue/Merle Hay Road street improvements, the NW 62nd Avenue street improvements and the Elmorado Estates improvements. In addition, the City added a significant amount of sewer and water mains through developer contributions. Other liabilities decreased 6%, or approximately \$808,000, from fiscal 2007. This decrease was primarily due to payment of amounts held in trust for the Silverstone development and a reduction in contracts payable for capital 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 2007 approximately \$9,357,000, or 14%, 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 \$7,423,000 at the end of this year. Restricted net assets increased over fiscal 2007 approximately \$1,469,000, or 12%, and unrestricted net assets decreased from 2007 approximately \$823,000, or 10%. The increase in restricted net assets is primarily due to an increase in funds held for capital projects or for future payment of debt.

Changes in Net Assets							
(Expressed in Thousands)							
	Governmental		Business Type		Total		Percent
	Activities		Activities		Total		Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-2008
Revenues:							
Program revenues:							
Charges for service	\$ 849	1,177	4,117	4,770	4,966	5,947	-16.5%
Operating grants, contributions and restricted interest	2,024	1,851	-	-	2,024	1,851	9.3%
Capital grants, contributions and restricted interest	7,666	4,323	1,669	2,582	9,335	6,905	35.2%
General revenues:							
Property and other city tax levied for:							
General purposes	6,347	5,981	-	-	6,347	5,981	6.1%
Debt service	3,100	2,988	-	-	3,100	2,988	3.7%
Hotel/motel tax	286	322	-	-	286	322	-11.2%
Tax increment financing	1,519	1,438	-	-	1,519	1,438	5.6%
Unrestricted investment earnings	107	147	283	358	390	505	-22.8%
Gain on disposition of capital assets	10	16	-	-	10	16	-37.5%
Miscellaneous	64	48	237	276	301	324	-7.1%
Total revenues	<u>21,972</u>	<u>18,291</u>	<u>6,306</u>	<u>7,986</u>	<u>28,278</u>	<u>26,277</u>	<u>7.6%</u>
Program expenses:							
Public safety	2,887	2,452	-	-	2,887	2,452	17.7%
Public works	4,092	3,296	-	-	4,092	3,296	24.2%
Health and social service	32	22	-	-	32	22	45.5%
Culture and recreation	2,228	2,116	-	-	2,228	2,116	5.3%
Community and economic development	821	839	-	-	821	839	-2.1%
General government	1,225	1,266	-	-	1,225	1,266	-3.2%
Interest and developer agreement debt	2,236	1,996	-	-	2,236	1,996	12.0%
Water	-	-	2,996	2,999	2,996	2,999	-0.1%
Sewer	-	-	1,758	1,586	1,758	1,586	10.8%
Total expenses	<u>13,521</u>	<u>11,987</u>	<u>4,754</u>	<u>4,585</u>	<u>18,275</u>	<u>16,572</u>	<u>10.3%</u>
Excess of revenues over expenses	8,451	6,304	1,552	3,401	10,003	9,705	3.1%
Operating transfers, net	300	(83)	(300)	83	-	-	0.0%
Net assets beginning of year	<u>52,804</u>	<u>46,583</u>	<u>33,451</u>	<u>29,967</u>	<u>86,255</u>	<u>76,550</u>	<u>12.7%</u>
Net assets end of year	<u>\$ 61,555</u>	<u>52,804</u>	<u>34,703</u>	<u>33,451</u>	<u>96,258</u>	<u>86,255</u>	<u>11.6%</u>

While the entire tax rate remained the same, the general purpose tax levy decreased from \$7.73 to \$7.58 per \$1,000 of taxable valuation and the general purpose tax revenue increased approximately \$366,000 as a result of increased taxable valuation. Tax increment financing valuation has been released over the past several years, which has increased the taxable valuation used to calculate the general fund tax levy. The debt service tax levy increased from \$3.57 to \$3.72 per \$1,000 of taxable valuation. Even with the release of valuation, the tax increment financing revenues increased approximately \$81,000, or 6%.

Overall revenues increased approximately \$2,001,000, or 8%, from FY07 to FY08. Capital grants, contributions and restricted interest increased due to a highway planning and construction grant and an increase in developer contributed infrastructure. Charges for service decreased, primarily due to a decrease in the number of building permits issued and a decrease in water usage from the prior year. Operating grants, contributions and restricted interest increased primarily due to an increase in special assessments collected to service debt.

Expenses increased overall approximately \$1,703,000, or 10%. Expenses for public works increased due to refunds of developer contributions. Expenses for public safety increased due to additional police officers, including a School Resource Officer, and the new Homeland Security partnership within the metro area.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Johnston completed the year, its governmental funds reported a combined fund balance of \$17,943,898, an increase of \$353,995 over last year's total of \$17,589,903. The following are the major reasons for the changes in fund balances of the governmental funds from the prior year.

The General Fund balance decreased \$140,161 to \$2,708,538, a change of less than 5%.

The Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund balance decreased \$216,207 to \$4,236,038, a change of only 4.9%.

The Debt Service Fund balance decreased \$1,438,025 to \$5,131,782. This decrease was primarily due to the refunding of general obligation bonds called during fiscal year 2008.

The Capital Projects Fund balance increased \$2,319,034 to \$4,555,518. The increase is due to higher cash balances held by the City to be used on various projects as construction progresses.

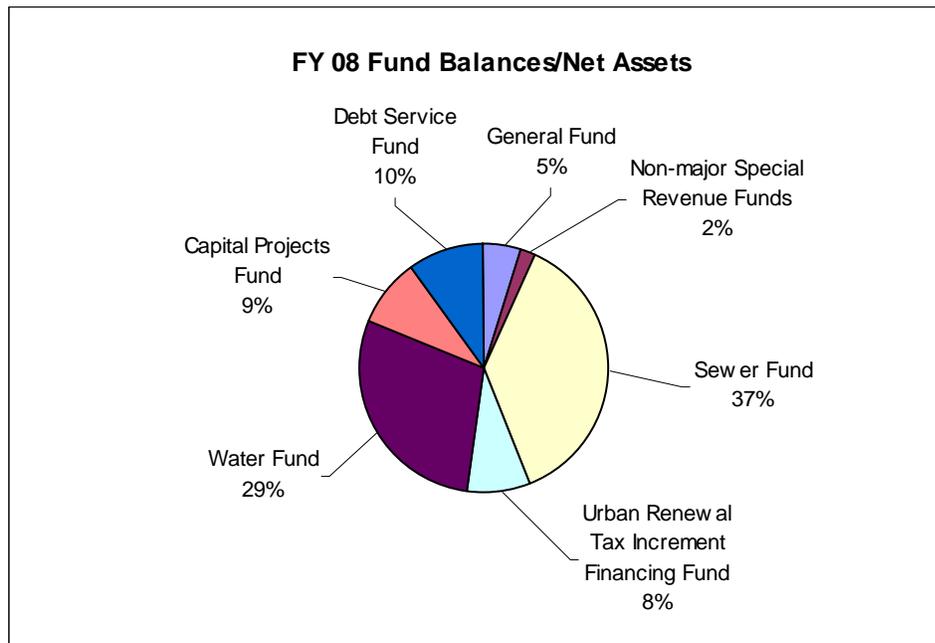
Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2008 with a \$15,377,373 net asset balance compared to the prior year ending net asset balance of \$15,035,370, an increase of approximately 2%.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment system, ended fiscal 2008 with a \$19,325,955 net asset balance compared to the prior year ending net asset balance of \$18,416,174, an increase of 5%.

Net assets in both the Water and Sewer Funds increased due to improvements donated to the City by developers. As an offset to the increase in assets contributed by the developers, collections for service connection fees charged by the City decreased from the prior year and the cost of water purchased from Des Moines Water Works continued to rise while the City's user rates have remained steady since 2001.

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 February 19, 2008. The second amendment was approved on May 19, 2008. The amendments were necessary for various changes in the City's receipts and disbursements and affected most receipt categories and all disbursement functions.

The City's receipts were \$558,617 less than budgeted receipts, a variance of only 2.1%.

Total disbursements were \$3,283,339 less than budgeted. Actual disbursements for the capital projects and business type activities functions were \$1,834,978 and \$757,492, respectively, less than budgeted. The variance in the capital projects function is primarily due to less work completed in the Capital Projects Fund than anticipated on ongoing projects. The budget variance in the business type activities function is attributable to sanitary sewer projects not completed prior to June 30, 2008. The City exceeded budgeted amounts in the debt service function for the year ended June 30, 2008 due to an oversight of the City not budgeting for the interest expense paid from the escrow account for the two crossover debt refundings with call dates in June 2008 and 2009.

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 \$83,960,370 (net of accumulated depreciation) at June 30, 2008. Capital assets for business type activities totaled \$39,347,510 (net of accumulated depreciation) at June 30, 2008. See note 3 to the financial statements for more information about the city's capital assets.

Capital Assets, net of Depreciation							
(expressed in thousands)							
	Governmental Activities		Business Type Activities		Total		Percent Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-2008
Land	\$ 3,047	3,040	60	60	3,107	3,100	0.2%
Construction in progress	22,848	15,365	3,858	2,750	26,706	18,115	47.4%
Buildings	6,641	6,823	-	-	6,641	6,823	-2.7%
Improvements other than buildings	539	521	-	-	539	521	3.5%
Equipment and vehicles	2,727	2,701	182	219	2,909	2,920	-0.4%
Infrastructure, road network	47,797	46,728	-	-	47,797	46,728	2.3%
Infrastructure, water/sewer network	-	-	35,248	33,861	35,248	33,861	4.1%
Infrastructure, other	361	394	-	-	361	394	-8.4%
Total	\$ 83,960	75,572	39,348	36,890	123,308	112,462	9.6%

The major capital outlays for governmental activities during the year included NW 86th Street improvements, NW 70th Avenue improvements and work on the Central Basin and Fiber Optic System improvements.

For business type activities, major additions included watermain improvements related to Phase II of the NW 70th Avenue improvements and improvements in the Elmorado Estates development. In addition, water and sewer mains contributed by developers were also capitalized.

Long-Term Debt

At June 30, 2008, the City had \$41,152,083 in general obligation bonds/notes outstanding for governmental activities. Total general obligation and revenue bonds/notes outstanding for business type activities was \$13,625,658 at June 30, 2008. 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 Activities		Business Type Activities		Total		Percent Change
	June 30,		June 30,		June 30,		June 30,
	2008	2007	2008	2007	2008	2007	2007-2008
General obligation bonds/notes	\$ 41,152	41,143	2,734	2,764	43,886	43,907	0.0%
Revenue bonds/notes	-	-	10,891	11,488	10,891	11,488	-5.2%
Total	\$ 41,152	41,143	13,625	14,252	54,777	55,395	-1.1%

During the year ended June 30, 2008, the City issued \$4,635,000 of general obligation bonds, Series 2007B. The bonds were issued primarily to fund improvements to NW 86th/N. of NW 70th, NW 70th Phase II, Creekside Park improvements, a portion of the fire rescue truck and Phase I of the City/School joint fiber optic project.

In the prior year, the City issued \$5,895,000 in crossover refunding notes, Series 2007A. The proceeds from the notes were used to refund Series 1999B general obligation bonds on June 1, 2008 and will refund the Series 2000A bonds on June 1, 2009. The funds for the crossover refunding are held in an escrow account by Bankers Trust Company, N.A. pending redemption dates. The Series 1999B general obligation bonds were refunded on June 1, 2008.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several factors affected decisions made by the City in setting its fiscal 2009 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 the council would levy above \$10.00/\$1,000 of taxable valuation to pay for the debt service and the additional expense to staff the library if the public voted support for the project. The library referendum was supported by nearly 70% of the community.

The rollback on residential properties increased from 45.5596% to 44.0803%. This means properties classified as residential in Iowa pay property tax based on 44.0803% of their assessed value. The rollback on commercial properties will increase from 100% to 99.7312%. Based on the 2007 valuations, the City loses \$20,146,382 in residential property valuation and \$905,930 in commercial/industrial valuation, for a net decrease of \$21,052,312 in taxable valuation, or \$237,891 in property tax dollars. 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 FY09 budget, the City was able to release \$6,695,530 in TIF valuation. This brings the total amount of TIF valuation that has been released since 2001 to \$99,443,866.

The General Fund is projected to end fiscal 2009 with a fund balance of \$1,778,022.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2009 are as follows:

General Fund levy	\$ 7.57752
Debt Service levy	<u>3.72350</u>
Total	<u>\$ 11.30102</u>

A major project which will continue to affect the City for the next few years is the NW 70th Avenue reconstruction, from Merle Hay Road west to NW 86th Street, including the widening of the NW 70th bridge.

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, 2008

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 13,544,102	4,498,992	18,043,094
Cash and investments held in escrow	4,769,450	-	4,769,450
Cash and investments held by the Library Foundation	240,153	-	240,153
Receivables:			
Property tax:			
Delinquent	103,650	-	103,650
Succeeding year	9,114,000	-	9,114,000
Tax increment financing:			
Delinquent	23,065	-	23,065
Succeeding year	1,364,000	-	1,364,000
Customer accounts and unbilled usage	-	491,931	491,931
Accounts	216,279	268	216,547
Special assessments	780,314	-	780,314
Accrued interest	23,986	9,790	33,776
Due from other governments	749,981	3,546	753,527
Inventories	-	146,918	146,918
Prepaid expenses	244,940	29,004	273,944
Restricted assets:			
Cash and pooled investments	-	2,611,799	2,611,799
Receivables:			
Special assessments	-	1,203,303	1,203,303
Accrued interest	-	2,585	2,585
Due from other governments	-	417,500	417,500
Unamortized bond issue costs	-	6,005	6,005
Capital assets (net of accumulated depreciation)	58,065,526	35,429,264	93,494,790
Capital assets not being depreciated	25,894,844	3,918,246	29,813,090
Total assets	115,134,290	48,769,151	163,903,441

City of Johnston
Statement of Net Assets
June 30, 2008

	Governmental Activities	Business Type Activities	Total
Liabilities			
Accounts payable	365,037	23,725	388,762
Accrued interest payable	143,822	8,459	152,281
Salaries and benefits payable	120,719	14,642	135,361
Contracts payable	991,383	138,548	1,129,931
Due to other governments	7,215	192,843	200,058
Deferred revenue:			
Succeeding year property tax	9,114,000	-	9,114,000
Succeeding year tax increment financing	1,364,000	-	1,364,000
Other	7,625	-	7,625
Liabilities payable from restricted assets:			
Customer deposits	-	8,480	8,480
Revenue bonds/notes	-	630,000	630,000
Accrued interest	-	33,624	33,624
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	8,150,100	349,900	8,500,000
Compensated absences	198,011	10,948	208,959
Portion due or payable after one year:			
General obligation bonds/notes	33,001,983	2,384,600	35,386,583
Revenue bonds/notes	-	10,261,158	10,261,158
Compensated absences	115,207	8,896	124,103
Total liabilities	53,579,102	14,065,823	67,644,925
Net Assets			
Invested in capital assets, net of related debt	49,555,346	25,793,620	75,348,966
Restricted for:			
Debt service	3,854,211	-	3,854,211
Capital projects	4,272,896	-	4,272,896
Revenue bond and note retirement	-	3,328,943	3,328,943
Improvements	-	660,883	660,883
Other purposes	1,369,871	-	1,369,871
Unrestricted	2,502,864	4,919,882	7,422,746
Total net assets	\$ 61,555,188	34,703,328	96,258,516

See notes to financial statements.

City of Johnston

Statement of Activities

Year ended June 30, 2008

Functions/Programs:	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Governmental activities:				
Public safety	\$ 2,887,059	60,203	135,007	-
Public works	4,092,533	375,148	1,252,043	7,565,738
Health and social services	31,557	-	-	-
Culture and recreation	2,228,079	71,612	160,617	72,513
Community and economic development	820,952	320,295	6,081	-
General government	1,224,841	22,142	-	-
Interest and developer agreement debt	2,235,667	-	470,042	27,927
Total governmental activities	13,520,688	849,400	2,023,790	7,666,178
Business type activities:				
Water	2,996,541	2,394,187	-	589,908
Sewer	1,757,543	1,723,007	-	1,079,421
Total business type activities	4,754,084	4,117,194	-	1,669,329
Total	\$ 18,274,772	4,966,594	2,023,790	9,335,507

General Revenues:

Property and other city tax levied for:
 General purposes
 Debt service
 Hotel/motel tax
 Tax increment financing
 Unrestricted investment earnings
 Gain on disposition of capital assets
 Miscellaneous
 Transfers
 Total general revenues and transfers
 Change in net assets
 Net assets beginning of year
 Net assets end of year

See notes to financial statements.

Net (Expense) Revenue and Changes in Net Assets		
Governmental Activities	Business Type Activities	Total
(2,691,849)	-	(2,691,849)
5,100,396	-	5,100,396
(31,557)	-	(31,557)
(1,923,337)	-	(1,923,337)
(494,576)	-	(494,576)
(1,202,699)	-	(1,202,699)
(1,737,698)	-	(1,737,698)
(2,981,320)	-	(2,981,320)
-	(12,446)	(12,446)
-	1,044,885	1,044,885
-	1,032,439	1,032,439
(2,981,320)	1,032,439	(1,948,881)
6,346,940	-	6,346,940
3,099,659	-	3,099,659
286,628	-	286,628
1,518,773	-	1,518,773
106,749	282,418	389,167
10,445	-	10,445
63,717	236,823	300,540
299,896	(299,896)	-
11,732,807	219,345	11,952,152
8,751,487	1,251,784	10,003,271
52,803,701	33,451,544	86,255,245
\$ 61,555,188	34,703,328	96,258,516

City of Johnston
Balance Sheet
Governmental Funds

June 30, 2008

	Special Revenue		
	General	Urban Renewal	Debt Service
Tax Increment Financing			
Assets			
Cash and pooled investments	\$ 2,653,157	4,215,798	325,727
Cash and investments held in escrow	-	-	4,769,450
Cash and investments held by the Library Foundation	-	-	-
Receivables:			
Property tax:			
Delinquent	69,112	-	34,538
Succeeding year	6,027,000	-	3,087,000
Tax increment financing:			
Delinquent	-	23,065	-
Succeeding year	-	1,364,000	-
Accounts	154,417	-	-
Special assessments	-	-	761,513
Accrued interest	6,241	7,539	567
Due from other governments	133,708	-	1,500
Prepaid expenditures	244,940	-	-
Total assets	\$ 9,288,575	5,610,402	8,980,295
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 225,311	10,364	-
Salaries and benefits payable	107,473	-	-
Contracts payable	76,527	-	-
Due to other governments	6,874	-	-
Deferred revenue:			
Succeeding year property tax	6,027,000	-	3,087,000
Succeeding year tax increment financing	-	1,364,000	-
Other	136,852	-	761,513
Total liabilities	6,580,037	1,374,364	3,848,513
Fund balances:			
Reserved for:			
Debt service	-	4,236,038	5,131,782
Capital projects	204,410	-	-
Unreserved:			
Undesignated:			
Reported in:			
General fund	2,504,128	-	-
Special revenue funds	-	-	-
Total fund balances	2,708,538	4,236,038	5,131,782
Total liabilities and fund balances	\$ 9,288,575	5,610,402	8,980,295

See notes to financial statements.

Capital Projects	Nonmajor	Total
5,039,270	1,123,610	13,357,562
-	-	4,769,450
-	240,153	240,153
-	-	103,650
-	-	9,114,000
-	-	23,065
-	-	1,364,000
59,560	2,302	216,279
18,801	-	780,314
9,062	577	23,986
462,743	152,030	749,981
-	-	244,940
<u>5,589,436</u>	<u>1,518,672</u>	<u>30,987,380</u>
1,655	123,894	361,224
-	13,246	120,719
903,536	11,320	991,383
-	341	7,215
-	-	9,114,000
-	-	1,364,000
128,727	57,849	1,084,941
<u>1,033,918</u>	<u>206,650</u>	<u>13,043,482</u>
-	-	9,367,820
4,555,518	-	4,759,928
-	-	2,504,128
-	1,312,022	1,312,022
<u>4,555,518</u>	<u>1,312,022</u>	<u>17,943,898</u>
<u>5,589,436</u>	<u>1,518,672</u>	<u>30,987,380</u>

City of Johnston

City of Johnston

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

June 30, 2008

Total governmental fund balances (page 23) \$ 17,943,898

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 governmental funds. The cost of assets is \$102,446,342 and the accumulated depreciation is \$18,485,972. 83,960,370

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the governmental funds. 1,077,316

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. 182,727

Long-term liabilities, including bonds/notes 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 governmental funds. (41,609,123)

Net assets of governmental activities (page 19) \$ 61,555,188

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2008

	Special Revenue		
	General	Urban Renewal Tax Increment Financing	Debt Service
Revenues:			
Property tax	\$ 6,098,564	-	2,984,775
Tax increment financing	-	1,518,773	-
Other city tax	535,004	-	114,884
Licenses and permits	286,787	-	-
Use of money and property	151,409	154,051	315,990
Intergovernmental	229,632	-	2,000
Charges for service	566,477	-	-
Special assessments	-	-	109,526
Miscellaneous	98,939	-	-
Total revenues	<u>7,966,812</u>	<u>1,672,824</u>	<u>3,527,175</u>
Expenditures:			
Operating:			
Public safety	2,793,645	-	-
Public works	1,390,831	-	-
Health and social services	31,557	-	-
Culture and recreation	2,005,272	-	-
Community and economic development	776,055	25,223	-
General government	1,203,453	-	-
Debt service	-	398,303	4,884,984
Capital projects	-	-	-
Total expenditures	<u>8,200,813</u>	<u>423,526</u>	<u>4,884,984</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(234,001)</u>	<u>1,249,298</u>	<u>(1,357,809)</u>
Other financing sources (uses):			
Sale of capital assets	7,075	-	-
Operating transfers in	25,000	-	1,076,230
Operating transfers out	(142,645)	(1,465,505)	(250,000)
General obligation bonds/notes issued	204,410	-	103,554
Discount on general obligation bonds/notes	-	-	-
General obligation bonds refunded	-	-	(1,010,000)
Total other financing sources (uses)	<u>93,840</u>	<u>(1,465,505)</u>	<u>(80,216)</u>
Net change in fund balances	(140,161)	(216,207)	(1,438,025)
Fund balances beginning of year	<u>2,848,699</u>	<u>4,452,245</u>	<u>6,569,807</u>
Fund balances end of year	<u>\$ 2,708,538</u>	<u>4,236,038</u>	<u>5,131,782</u>

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	-	9,083,339
-	-	1,518,773
-	-	649,888
-	7,810	294,597
142,586	21,417	785,453
4,444,377	1,192,805	5,868,814
-	-	566,477
6,714	-	116,240
1,028,650	36,595	1,164,184
5,622,327	1,258,627	20,047,765
-	27,322	2,820,967
-	1,285,233	2,676,064
-	-	31,557
-	31,815	2,037,087
-	25,548	826,826
-	-	1,203,453
-	-	5,283,287
8,162,135	-	8,162,135
8,162,135	1,369,918	23,041,376
(2,539,808)	(111,291)	(2,993,611)
-	-	7,075
566,275	17,645	1,685,150
-	(77,000)	(1,935,150)
4,327,036	-	4,635,000
(34,469)	-	(34,469)
-	-	(1,010,000)
4,858,842	(59,355)	3,347,606
2,319,034	(170,646)	353,995
2,236,484	1,482,668	17,589,903
4,555,518	1,312,022	17,943,898

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, 2008

Net change in fund balances - Total governmental funds (page 27) \$ 353,995

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	\$ 8,618,277	
Capital assets contributed by developers and others	1,911,250	
Depreciation expense	<u>(2,144,362)</u>	8,385,165

In the Statement of Activities, the gain on the disposition of capital assets is reported, whereas the governmental funds report the proceeds from the disposition as an increase in financial resources. 3,370

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. 2,819

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

Issued	(4,635,000)	
Repaid	4,061,040	
General obligation debt assumed by business type activities from governmental activities	<u>565,000</u>	(8,960)

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	(3,665)	
Accrued interest on long-term debt	<u>(3,420)</u>	(7,085)

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. 22,183

Change in net assets of governmental activities (page 21) \$ 8,751,487

See notes to financial statements.

City of Johnston
Statement of Net Assets
Proprietary Funds
June 30, 2008

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Assets				
Current assets:				
Cash and pooled investments	\$ 2,048,527	2,450,465	4,498,992	186,540
Receivables:				
Customer accounts and unbilled usage	304,987	186,944	491,931	-
Accounts	198	70	268	-
Accrued interest	4,601	5,189	9,790	-
Due from other governments	1,113	2,433	3,546	-
Inventories	146,918	-	146,918	-
Prepaid expenses	14,502	14,502	29,004	-
Restricted assets:				
Cash and pooled investments	832,349	1,779,450	2,611,799	-
Receivables:				
Special assessments	-	1,203,303	1,203,303	-
Accrued interest	432	2,153	2,585	-
Due from other governments	-	417,500	417,500	-
Unamortized bond issue costs	6,005	-	6,005	-
Capital assets (net of accumulated depreciation)	15,120,409	20,308,855	35,429,264	-
Capital assets not being depreciated	1,774,215	2,144,031	3,918,246	-
Total assets	20,254,256	28,514,895	48,769,151	186,540

Exhibit G

City of Johnston
Statement of Net Assets
Proprietary Funds

June 30, 2008

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Liabilities				
Current liabilities:				
Accounts payable	17,857	5,868	23,725	3,813
Accrued interest payable on general obligation bonds	-	8,459	8,459	-
Salaries and benefits payable	7,321	7,321	14,642	-
Contracts payable	84,118	54,430	138,548	-
Due to other governments	192,209	634	192,843	-
Compensated absences	5,474	5,474	10,948	-
General obligation bonds	-	349,900	349,900	-
Current liabilities payable from restricted assets:				
Customer deposits	8,480	-	8,480	-
Revenue bonds and notes	255,000	375,000	630,000	-
Accrued interest	17,818	15,806	33,624	-
Long-term liabilities:				
General obligation bonds	-	2,384,600	2,384,600	-
Revenue bonds and notes (net of unamortized discount)	4,284,158	5,977,000	10,261,158	-
Compensated absences	4,448	4,448	8,896	-
Total liabilities	4,876,883	9,188,940	14,065,823	3,813
Net Assets				
Invested in capital assets, net of related debt	12,355,466	13,438,154	25,793,620	-
Restricted for:				
Revenue bond and note retirement	582,500	2,746,443	3,328,943	-
Improvements	160,883	500,000	660,883	-
Unrestricted	2,278,524	2,641,358	4,919,882	182,727
Total net assets	\$ 15,377,373	19,325,955	34,703,328	182,727

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2008

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Operating revenues:				
Charges for service	\$ 2,303,976	1,575,365	3,879,341	-
Miscellaneous	213,979	22,844	236,823	100,851
Total operating revenues	2,517,955	1,598,209	4,116,164	100,851
Operating expenses:				
Governmental activities:				
Public safety	-	-	-	18,490
Public works	-	-	-	12,146
Culture and recreation	-	-	-	11,062
Community and economic development	-	-	-	16,517
General government	-	-	-	20,453
Business type activities:				
Cost of sales and services	2,420,618	934,371	3,354,989	-
Depreciation	341,917	494,510	836,427	-
Total operating expenses	2,762,535	1,428,881	4,191,416	78,668
Operating income (loss)	(244,580)	169,328	(75,252)	22,183
Non-operating revenues (expenses):				
Interest income	127,027	155,391	282,418	-
Interest expense	(234,006)	(328,662)	(562,668)	-
Assumption of general obligation debt	-	(565,000)	(565,000)	-
Service connection fees	90,211	147,642	237,853	-
Total non-operating revenues (expenses)	(16,768)	(590,629)	(607,397)	-
Net income (loss) before contributions and transfers	(261,348)	(421,301)	(682,649)	22,183
Contributions and transfers:				
Capital contributions	603,351	1,081,082	1,684,433	-
Transfer in	-	250,000	250,000	-
Total contributions and transfers	603,351	1,331,082	1,934,433	-
Changes in net assets	342,003	909,781	1,251,784	22,183
Net assets beginning of year	15,035,370	18,416,174	33,451,544	160,544
Net assets end of year	\$ 15,377,373	19,325,955	34,703,328	182,727

See notes to financial statements.

Exhibit I

City of Johnston
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2008

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Cash flows from operating activities:				
Cash received from customers, users and employees	\$ 2,442,286	1,580,561	4,022,847	100,851
Cash received from other revenues	230,782	22,066	252,848	-
Cash paid for personal services	(272,643)	(271,131)	(543,774)	-
Cash paid to suppliers	(2,089,466)	(674,555)	(2,764,021)	(78,771)
Net cash provided by operating activities	310,959	656,941	967,900	22,080
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(765,643)	(496,044)	(1,261,687)	-
Special assessments	-	316,355	316,355	-
Service connection fees	92,569	150,432	243,001	-
Revenue note proceeds	-	5,000	5,000	-
Reimbursements from others	-	83,500	83,500	-
Principal paid on revenue bonds and notes	(240,000)	(367,000)	(607,000)	-
Principal paid on general obligation bonds	-	(594,900)	(594,900)	-
Interest paid on revenue bonds and notes	(228,669)	(203,657)	(432,326)	-
Interest paid on general obligation bonds	-	(125,631)	(125,631)	-
Transfer in from Debt Service Fund to refund bonds	-	250,000	250,000	-
Net cash used by capital and related financing activities	(1,141,743)	(981,945)	(2,123,688)	-
Cash flows from investing activities:				
Interest on investments	136,389	165,440	301,829	-
Net increase (decrease) in cash and cash equivalents	(694,395)	(159,564)	(853,959)	22,080
Cash and cash equivalents beginning of year	3,575,271	4,389,479	7,964,750	164,460
Cash and cash equivalents end of year	\$ 2,880,876	4,229,915	7,110,791	186,540

See notes to financial statements.

City of Johnston
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2008

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Reconciliation of operating income (loss) to net cash provided by operating activities:				
Operating income (loss)	\$ (244,580)	169,328	(75,252)	22,183
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:				
Depreciation	341,917	494,510	836,427	-
Decrease in customer accounts and unbilled usage and other accounts receivable	155,113	6,851	161,964	-
(Increase) in due from other governments	(1,113)	(2,433)	(3,546)	-
Decrease in inventories	72,178	-	72,178	-
(Increase) in prepaid expenses	(3,335)	(3,335)	(6,670)	-
Increase (decrease) in accounts payable	5,954	(3,331)	2,623	(103)
Increase in salaries payable	3,877	3,877	7,754	-
Increase (decrease) in contract payables	901	(9,038)	(8,137)	-
Increase in compensated absences	2,710	2,710	5,420	-
(Decrease) in customer deposits	(1,520)	-	(1,520)	-
(Decrease) in due to other governments	(21,143)	(2,198)	(23,341)	-
Net cash provided by operating activities	<u>\$ 310,959</u>	<u>656,941</u>	<u>967,900</u>	<u>22,080</u>
Reconciliation of cash and cash equivalents at year end to specific assets included on the Statement of Net Assets:				
Current assets:				
Cash and pooled investments	\$ 2,048,527	2,450,465	4,498,992	186,540
Restricted assets:				
Cash and pooled investments:	832,349	1,779,450	2,611,799	-
	<u>\$ 2,880,876</u>	<u>4,229,915</u>	<u>7,110,791</u>	<u>186,540</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2008, developers contributed water main and sanitary sewer extensions totaling \$589,908 and \$1,079,421, respectively, to the Enterprise, Water and Sewer Funds. In addition, the Capital Projects Fund contributed water main and sanitary sewer extensions totaling \$13,443 and \$1,661, respectively, to the Enterprise, Water and Sewer Funds.

City of Johnston

Notes to Financial Statements

June 30, 2008

(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. In addition, the City has cash and investments held in escrow for debt refunding. 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, 2008 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, 2006 assessed property valuations; is for the tax accrual period July 1, 2007 through June 30, 2008 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2007.

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 and customer deposits restricted for application to unpaid customer accounts or for refund to customers.

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 acquired after January 1, 1976 (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 prepaid permits.

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 prepaid permits.

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, 2008. 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, 2008, disbursements exceeded the amount budgeted in the debt service function. In addition, disbursements exceeded the amount budgeted in the capital projects function before the budget was amended.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$20,072,044 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.

At June 30, 2008 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Government Treasury Notes	\$ 14,321	14,321	December 2008
U.S. Government Treasury Notes	4,754,320	4,754,320	June 2009
Total	\$ 4,768,641	4,768,641	

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

(3) Capital Assets

Capital assets activity for the year ended June 30, 2008 was as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,039,975	7,000	-	3,046,975
Construction in progress, road network	15,288,678	7,758,264	(650,000)	22,396,942
Construction in progress, other	76,495	424,432	(50,000)	450,927
Total capital assets not being depreciated	18,405,148	8,189,696	(700,000)	25,894,844
Capital assets being depreciated:				
Buildings	8,155,693	-	-	8,155,693
Improvements other than buildings	612,892	50,000	-	662,892
Equipment and vehicles	5,266,367	433,282	(93,403)	5,606,246
Infrastructure, road network	58,901,806	2,561,250	-	61,463,056
Infrastructure, other	663,611	-	-	663,611
Total capital assets being depreciated	73,600,369	3,044,532	(93,403)	76,551,498
Less accumulated depreciation for:				
Buildings	1,332,314	182,350	-	1,514,664
Improvements other than buildings	92,485	30,994	-	123,479
Equipment and vehicles	2,565,022	406,605	(92,072)	2,879,555
Infrastructure, road network	12,174,219	1,491,232	-	13,665,451
Infrastructure, other	269,642	33,181	-	302,823
Total accumulated depreciation	16,433,682	2,144,362	(92,072)	18,485,972
Total capital assets being depreciated, net	57,166,687	900,170	(1,331)	58,065,526
Governmental activities capital assets, net	\$ 75,571,835	9,089,866	(701,331)	83,960,370
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 60,178	-	-	60,178
Construction in progress	2,749,840	1,616,544	(508,316)	3,858,068
Total capital assets not being depreciated	2,810,018	1,616,544	(508,316)	3,918,246
Capital assets being depreciated:				
Equipment and vehicles	379,561	8,100	-	387,661
Infrastructure, water and sewer network	39,788,203	2,177,645	-	41,965,848
Total capital assets being depreciated	40,167,764	2,185,745	-	42,353,509
Less accumulated depreciation for:				
Equipment and vehicles	160,422	45,357	-	205,779
Infrastructure, water and sewer network	5,927,396	791,070	-	6,718,466
Total accumulated depreciation	6,087,818	836,427	-	6,924,245
Total capital assets being depreciated, net	34,079,946	1,349,318	-	35,429,264
Business type activities capital assets, net	\$ 36,889,964	2,965,862	(508,316)	39,347,510

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety	\$ 133,630
Public works	1,761,783
Culture and recreation	216,039
Community and economic development	7,289
General government	<u>25,621</u>
Total depreciation expense - governmental activities	<u>\$ 2,144,362</u>
Business type activities:	
Water	\$ 341,917
Sewer	<u>494,510</u>
Total depreciation expense - business type activities	<u>\$ 836,427</u>

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2008 is as follows:

	Balance Beginning of Year	Adjustment*	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:						
General obligation bonds/notes	\$ 41,143,123	(565,000)	4,635,000	4,061,040	41,152,083	(1) 8,150,100
Compensated absences	309,553	-	284,990	281,325	313,218	198,011
Total	<u>\$ 41,452,676</u>	<u>(565,000)</u>	<u>4,919,990</u>	<u>4,342,365</u>	<u>41,465,301</u>	<u>8,348,111</u>
Business type activities:						
General obligation bonds/notes	\$ 2,764,400	565,000	-	594,900	2,734,500	349,900
Revenue bonds/notes	11,488,097	-	10,061	607,000	10,891,158	(2) 630,000
Compensated absences	14,424	-	16,588	11,168	19,844	10,948
Total	<u>\$ 14,266,921</u>	<u>565,000</u>	<u>26,649</u>	<u>1,213,068</u>	<u>13,645,502</u>	<u>990,848</u>

(1) Bonds were sold at a premium; unamortized premium at June 30, 2008 totaled \$181,583.

(2) Bonds were sold at a discount; unamortized discount at June 30, 2008 totaled \$55,842.

* - Adjustment for general obligation debt assumed by business type activities from governmental activities.

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 \$41,152,083 at June 30, 2008. The portion of unmatured general obligation bonds expected to be repaid from business type activities and accounted for in the Enterprise Funds totaled \$2,734,500 at June 30, 2008. 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 2.00% to 5.35% and mature in varying annual amounts ranging from \$65,100 to \$1,080,000, with final maturities due in the year ending June 30, 2022.

Details of general obligation bonds/notes payable at June 30, 2008 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2008
General obligation bonds/notes:						
Refunding	Dec 1, 1998	4.10-4.35%	June 1, 2012	65,100-93,000	\$ 760,300	325,500
Essential corporate purpose	Feb 1, 1999	4.00-4.50	June 1, 2014	65,000-160,000	1,785,000	860,000
General and essential corporate purpose	Apr 15, 2000	4.75-5.35	June 1, 2015	465,000-905,000	9,155,000	5,390,000
Essential corporate purpose	Mar 1, 2001	3.65-4.80	June 1, 2016	175,000-320,000	3,360,000	2,160,000
Essential corporate purpose	Dec 1, 2001	3.00-4.40	June 1, 2016	115,000-190,000	2,060,000	1,315,000
Essential corporate purpose	Oct 1, 2002	2.00-3.95	June 1, 2017	265,000-430,000	4,655,000	3,250,000
Essential corporate purpose and refunding notes	May 15, 2004	2.00-4.00	June 1, 2014	145,000-150,000	2,150,000	880,000
Essential corporate purpose	Jun 1, 2005	3.75-4.00	June 1, 2021	465,000-775,000	8,995,000	8,050,000
Refunding	Oct 1, 2006	3.60-3.70	June 1, 2013	365,000-605,000	3,625,000	2,645,000
Essential corporate purpose	Oct 1, 2006	3.70-3.95	June 1, 2022	135,000-505,000	5,700,000	5,565,000
Refunding	Jan 1, 2007	4.00-5.00	June 1, 2015	155,000-1,080,000	5,895,000	5,895,000
Essential corporate purpose	Aug 1, 2007	4.25-4.75	June 1, 2022	250,000-430,000	4,635,000	4,635,000
Total governmental activities						<u>\$ 40,970,500</u>

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

Year Ending June 30,	Principal	Interest	Total
2009	\$ 8,150,100	1,716,644	9,866,744
2010	3,552,500	1,332,907	4,885,407
2011	3,698,000	1,196,323	4,894,323
2012	3,859,900	1,053,412	4,913,312
2013	3,640,000	903,267	4,543,267
2014-2018	12,290,000	2,482,259	14,772,259
2019-2022	5,780,000	557,330	6,337,330
Total	<u>\$ 40,970,500</u>	<u>9,242,142</u>	<u>50,212,642</u>

General Obligation Refunding Notes

On January 1, 2007 the City issued \$5,895,000 of general obligation refunding notes with interest at rates ranging from 4.00% to 5.00%. These were issued to crossover refund general obligation bonds series 1999B dated October 1, 1999 and series 2000A dated April 15, 2000. General obligation bonds series 1999B were called for redemption as of June 1, 2008 and were all retired as of June 30, 2008.

The City entered into an escrow agreement whereby the proceeds from the general obligation refunding notes, dated January 1, 2007, were converted into U.S. Treasury Securities. These securities, along with additional cash, are being held in an escrow account for the express purpose of paying principal on the general obligation bonds, series 2000A, when due at the crossover date of June 1, 2009. In addition, funds in the escrow account will be used to pay interest on the general obligation refunding notes due before the crossover date. After the principal of the outstanding bonds and interest on the refunding notes have been paid, any remaining funds in the escrow account, together with any interest thereon, shall be returned to the City. The transactions, balances and liabilities of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

Business Type Activities:

Five issues of unmatured general obligation bonds totaling \$2,734,500 and payable from the Enterprise Funds are outstanding at June 30, 2008. These bonds bear interest at rates ranging from 1.90% to 4.35% and mature in varying annual amounts ranging from \$10,000 to \$220,000, with final maturities due in the year ending June 30, 2022.

Revenue Bonds/Notes

Two issues of unmatured water revenue bonds/notes, totaling \$4,595,000, are outstanding at June 30, 2008. These bonds/notes bear interest at rates ranging from 4.30% to 5.40% and mature in varying annual amounts ranging from \$50,000 to \$470,000, with the final maturity due in the year ending June 30, 2021.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$5,825,000 in water revenue bonds/notes issued in June 1997 and September 2001. Proceeds from the bonds/notes provided financing for the construction of improvements and extension to the water system. The bonds/notes are payable solely from water customer net revenues and are payable through 2021. Annual principal and interest payments on the bonds/notes are expected to require more than 100 percent of the net revenues. The total principal and interest remaining to be paid on the notes is \$6,280,985. For the current year, principal and interest paid and total customer net revenues were \$468,669 and \$97,337, respectively. Total customer net revenues is defined for this purpose as operating loss adding back depreciation.

Three issues of unmatured sewer revenue bonds/notes, totaling \$6,352,000, are outstanding at June 30, 2008. These bonds/notes bear interest at rates ranging from 1.50% to 3.65% and mature in varying annual amounts ranging from \$100,000 to \$231,000, with the final maturity due in the year ending June 30, 2026.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$7,500,000 in sewer revenue bonds/notes issued in October 2003, May 2005 and May 2006. Proceeds from the bonds/notes provided financing for construction of sewer improvements. The bonds/notes are payable solely from wastewater customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds/notes are expected to require less than 86 percent of the net revenues. The total principal and interest remaining to be paid on the notes is \$8,129,372. For the current year, principal and interest paid and total customer net revenues were \$570,657 and \$663,838, respectively. Total customer net revenues is defined for this purpose as operating income adding back depreciation.

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) Water and sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 125% and 110%, respectively, of the amount of principal and interest on the bonds and notes falling due in the same year.

During the year ended June 30, 2008, the City was not in compliance with the net revenue requirement for the water revenue bonds/notes as required by the bond resolutions.

Details of general obligation bonds and revenue bonds/notes payable from Enterprise Funds at June 30, 2008 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2008
General obligation bonds/notes:						
Refunding	Dec 1, 1998	4.10-4.35%	June 1, 2012	39,900-55,100	\$ 309,700	199,500
Refunding notes	Oct 1, 2003	1.90-3.90	June 1, 2013	20,000-30,000	265,000	145,000
Essential corporate purpose and refunding bonds	May 15, 2004	2.00-4.00	June 1, 2014	110,000-220,000	1,995,000	1,090,000
Essential corporate purpose	Aug 1, 2005	3.05-4.10	June 1, 2020	50,000-84,000	900,000	800,000
Essential corporate purpose	Oct 1, 2006	3.70-3.95	June 1, 2022	10,000-45,000	510,000	500,000
						2,734,500
Revenue bonds/notes:						
Water	Jun 1, 1997	4.50-5.40	June 1, 2013	55,000-120,000	1,245,000	535,000
Water	Sep 1, 2001	4.30-4.90	June 1, 2021	50,000-470,000	4,580,000	4,060,000
Sewer	Oct 1, 2003	1.50-3.65	June 1, 2013	100,000-135,000	1,170,000	635,000
Sewer	May 17, 2005	3.00	June 1, 2025	132,000-231,000	3,535,000	3,128,000
Sewer	May 1, 2006	3.00	June 1, 2026	104,000-183,000	2,795,000	2,589,000
						10,947,000
Total business type activities						\$ 13,681,500

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
2009	\$ 349,900	103,709	453,609	630,000	410,224	1,040,224
2010	372,500	91,465	463,965	657,000	386,778	1,043,778
2011	397,000	77,868	474,868	674,000	362,263	1,036,263
2012	405,100	63,025	468,125	703,000	336,739	1,039,739
2013	230,000	47,727	277,727	731,000	309,771	1,040,771
2014-2018	645,000	140,222	785,222	3,405,000	1,156,717	4,561,717
2019-2023	335,000	35,744	370,744	3,159,000	447,975	3,606,975
2024-2026	-	-	-	988,000	52,890	1,040,890
Total	\$ 2,734,500	559,760	3,294,260	10,947,000	3,463,357	14,410,357

(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, 2004B and 2006 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 \$13,220,000 as of June 30, 2008. The City of Johnston has a commitment for approximately \$183,360, or 1.39%, for future principal payment requirements on that debt. The WRA Sewer Revenue Bonds Series 2004B and 2006 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, 2008, the Series 2004B bonds had a balance of \$64,695,000 and the City of Johnston's estimated future allocation based on the WRA flows is currently \$874,344, or 1.35%. As of June 30, 2008, the Series 2006 bonds had a balance of \$38,050,000 and the City of Johnston's estimated future allocation based on the WRA flows is currently \$464,586, or

1.22%. 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, 2008, the WRA had \$25,194,583 in outstanding State Revolving Loans, of which \$239,305 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 is not 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, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Special Revenue: Library	\$ 25,000
Special Revenue: Senior Citizens	General	2,645
Community Improvement	General	15,000
		<u>17,645</u>
Debt Service	Special Revenue: Urban Renewal Tax Increment Financing	1,076,230
Capital Projects	General	125,000
	Special Revenue: East Park District	25,000
	Northwest Park District	7,000
	Southwest Park District	20,000
	Urban Renewal Tax Increment Financing	389,275
		<u>566,275</u>
Sewer	Debt Service	250,000
Total		<u>\$ 1,935,150</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 \$11,457,262.

The City has rebated a total of \$2,522,771 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2008 was \$8,934,491.

(8) Forgivable Loans

The City has entered into six 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, 2008, the City had loaned \$472,982 under the agreements and forgiven \$401,132 of the loans, leaving a balance of \$71,850.

(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 3.90% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2008, 2007 and 2006 were \$298,613, \$269,413 and \$234,594, respectively, equal to the required contributions for each year.

(10) Industrial Development Revenue Bonds

The City has issued a total of \$2,500,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$2,190,000 is outstanding at June 30, 2008. 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 Mercer Administration. 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 Mercer Administration from the Internal Service, Health Deductible Claims Fund. The City made contributions of \$50,010 to the fund for the year ended June 30, 2008.

Amounts payable from the Internal Service, Health Deductible Claims Fund at June 30, 2008 total \$3,813, 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, 2007	\$ 3,916
Incurred claims	28,011
Payments on claims during the fiscal year	<u>28,114</u>
Unpaid claims at June 30, 2008	<u>\$ 3,813</u>

(12) Contractual Commitments

The City has entered into construction contracts totaling \$22,735,462 for construction projects. As of June 30, 2008, costs of \$21,109,955 have been incurred on the projects. The balance on the contracts of \$1,625,507 will be paid as work on the projects progresses.

(13) Subsequent Events

In July 2008, the City approved a \$1,014,700 contract for the NW 70th Avenue bridge widening project.

In July 2008, the City approved a \$674,384 contract for the Windwood lift station removal project.

In October and December 2008, the City approved contracts totaling \$1,366,255 for a public works motor vehicle storage building and sewer and water building improvements.

In December 2008, the City issued \$3,195,000 of general obligation capital loan notes to fund sanitary sewer and street improvements, fire and ambulance equipment, the fiber optic joint project and the motor vehicle storage building project.

City of Johnston

Required Supplementary Information

City of Johnston

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

Required Supplementary Information

Year ended June 30, 2008

	Governmental Funds Actual	Enterprise Funds Actual	Total Actual
Receipts:			
Property tax	\$ 9,040,384	-	9,040,384
Tax increment financing	1,508,260	-	1,508,260
Other city tax	670,625	-	670,625
Licenses and permits	312,557	-	312,557
Use of money and property	811,346	301,830	1,113,176
Intergovernmental	6,888,809	83,500	6,972,309
Charges for service	533,721	4,275,979	4,809,700
Special assessments	116,240	311,319	427,559
Miscellaneous	1,001,124	252,895	1,254,019
Total receipts	<u>20,883,066</u>	<u>5,225,523</u>	<u>26,108,589</u>
Disbursements:			
Public safety	2,806,987	-	2,806,987
Public works	2,554,553	-	2,554,553
Health and social services	31,557	-	31,557
Culture and recreation	2,000,793	-	2,000,793
Community and economic development	826,266	-	826,266
General government	1,188,627	-	1,188,627
Debt service	5,755,004	-	5,755,004
Capital projects	9,928,923	-	9,928,923
Business type activities	-	5,295,759	5,295,759
Total disbursements	<u>25,092,710</u>	<u>5,295,759</u>	<u>30,388,469</u>
Excess (deficiency) of receipts over (under) disbursements	(4,209,644)	(70,236)	(4,279,880)
Other financing sources (uses), net	4,132,615	(783,723)	3,348,892
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(77,029)	(853,959)	(930,988)
Balances beginning of year	18,444,194	7,964,750	26,408,944
Balances end of year	<u>\$ 18,367,165</u>	<u>7,110,791</u>	<u>25,477,956</u>

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Net	Budgeted Amounts		Final to Actual Variance
		Original	Final	
-	9,040,384	9,108,408	9,108,408	(68,024)
-	1,508,260	1,926,284	1,926,284	(418,024)
-	670,625	668,746	668,746	1,879
-	312,557	610,825	339,597	(27,040)
7,692	1,105,484	352,114	800,079	305,405
-	6,972,309	3,710,302	6,976,585	(4,276)
-	4,809,700	5,067,792	5,045,856	(236,156)
-	427,559	-	418,030	9,529
19,373	1,234,646	352,415	1,356,556	(121,910)
27,065	26,081,524	21,796,886	26,640,141	(558,617)
-	2,806,987	3,289,644	2,994,292	187,305
-	2,554,553	2,924,740	2,796,714	242,161
-	31,557	49,025	39,025	7,468
23,590	1,977,203	1,981,019	2,080,257	103,054
-	826,266	1,115,680	1,149,200	322,934
-	1,188,627	1,389,185	1,281,940	93,313
-	5,755,004	6,270,638	5,489,638	(265,366)
-	9,928,923	6,556,692	11,763,901	1,834,978
-	5,295,759	6,799,979	6,053,251	757,492
23,590	30,364,879	30,376,602	33,648,218	3,283,339
3,475	(4,283,355)	(8,579,716)	(7,008,077)	2,724,722
-	3,348,892	5,759,913	4,610,509	(1,261,617)
3,475	(934,463)	(2,819,803)	(2,397,568)	1,463,105
236,678	26,172,266	15,472,341	20,107,425	6,064,841
240,153	25,237,803	12,652,538	17,709,857	7,527,946

City of Johnston
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2008

	Governmental Funds		
	Cash Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 20,883,066	(835,301)	20,047,765
Expenditures	25,092,710	(2,051,334)	23,041,376
Net	(4,209,644)	1,216,033	(2,993,611)
Other financing sources (uses)	4,132,615	(785,009)	3,347,606
Beginning fund balances	18,444,194	(854,291)	17,589,903
Ending fund balances	\$ 18,367,165	(423,267)	17,943,898

	Proprietary Funds		
	Enterprise		
	Cash Basis	Accrual Adjustments	Accrual Basis
Revenues	\$ 5,225,523	1,095,345	6,320,868
Expenses	5,295,759	23,325	5,319,084
Net	(70,236)	1,072,020	1,001,784
Other financing sources (uses)	(783,723)	1,033,723	250,000
Beginning net assets	7,964,750	25,486,794	33,451,544
Ending net assets	\$ 7,110,791	27,592,537	34,703,328

See accompanying independent auditor's report.

City of Johnston

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2008

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

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and 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 nine major classes of disbursements known as functions, not by fund. These nine functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects and business type activities. Function disbursements required to be budgeted include disbursements for the General Fund, the Special Revenue Funds, the Debt Service Fund, the Capital Projects Fund and the Enterprise Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, two budget amendments increased budgeted disbursements by \$3,271,616. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements in the debt service function exceeded the amount budgeted. In addition, disbursements exceeded the amount budgeted in the capital projects function before the budget was amended.

City of Johnston

Other Supplementary Information

City of Johnston
Combining Balance Sheet
Nonmajor Governmental Funds

June 30, 2008

	Road Use Tax	Police	Law Enforcement Block Grant	Police Forfeitures	East Park District
Assets					
Cash and pooled investments:					
City officials	\$ 795,540	45,532	1,566	895	3,945
Library Foundation	-	-	-	-	-
Receivables:					
Accounts	70	-	260	-	-
Accrued interest	-	80	2	-	7
Due from other governments	152,030	-	-	-	-
Total assets	\$ 947,640	45,612	1,828	895	3,952
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 121,836	1,540	-	-	-
Salaries and benefits payable	13,246	-	-	-	-
Contracts payable	11,320	-	-	-	-
Due to other governments	341	-	-	-	-
Deferred revenue	57,849	-	-	-	-
Total liabilities	204,592	1,540	-	-	-
Fund equity:					
Fund balances:					
Unreserved, undesignated	743,048	44,072	1,828	895	3,952
Total liabilities and fund equity	\$ 947,640	45,612	1,828	895	3,952

See accompanying independent auditor's report.

Special Revenue							
Northridge Park District	Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Library Foundation	Total
152,277	24,846	14,155	1,620	74,324	8,910	-	1,123,610
-	-	-	-	-	-	240,153	240,153
-	-	-	-	1,972	-	-	2,302
274	44	22	2	130	16	-	577
-	-	-	-	-	-	-	152,030
152,551	24,890	14,177	1,622	76,426	8,926	240,153	1,518,672
-	-	-	500	-	18	-	123,894
-	-	-	-	-	-	-	13,246
-	-	-	-	-	-	-	11,320
-	-	-	-	-	-	-	341
-	-	-	-	-	-	-	57,849
-	-	-	500	-	18	-	206,650
152,551	24,890	14,177	1,122	76,426	8,908	240,153	1,312,022
152,551	24,890	14,177	1,622	76,426	8,926	240,153	1,518,672

City of Johnston

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

Year ended June 30, 2008

	Road Use Tax	Police	Law Enforcement Block Grant	Police Forfeitures
Revenues:				
Licenses and permits	\$ -	-	-	-
Use of money and property	-	1,772	61	-
Intergovernmental	1,176,495	15,553	757	-
Miscellaneous	-	-	-	895
Total revenues	1,176,495	17,325	818	895
Expenditures:				
Operating:				
Public safety	-	25,914	1,408	-
Public works	1,285,233	-	-	-
Culture and recreation	-	-	-	-
Community and economic development	-	-	-	-
Total expenditures	1,285,233	25,914	1,408	-
Excess (deficiency) of revenues over (under) expenditures	(108,738)	(8,589)	(590)	895
Other financing sources (uses):				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	-	-
Total other financing sources (uses)	-	-	-	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	(108,738)	(8,589)	(590)	895
Fund balances beginning of year	851,786	52,661	2,418	-
Fund balances end of year	\$ 743,048	44,072	1,828	895

See accompanying independent auditor's report.

Special Revenue								
East Park District	Northridge Park District	Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Library Foundation	Total
-	-	-	-	-	7,810	-	-	7,810
485	5,304	992	770	109	2,881	1,351	7,692	21,417
-	-	-	-	-	-	-	-	1,192,805
-	-	-	6,667	3,910	-	5,750	19,373	36,595
485	5,304	992	7,437	4,019	10,691	7,101	27,065	1,258,627
-	-	-	-	-	-	-	-	27,322
-	-	-	-	-	-	-	-	1,285,233
-	-	-	-	8,225	-	-	23,590	31,815
-	-	-	-	-	-	25,548	-	25,548
-	-	-	-	8,225	-	25,548	23,590	1,369,918
485	5,304	992	7,437	(4,206)	10,691	(18,447)	3,475	(111,291)
-	-	-	-	2,645	-	15,000	-	17,645
(25,000)	-	(7,000)	(20,000)	-	(25,000)	-	-	(77,000)
(25,000)	-	(7,000)	(20,000)	2,645	(25,000)	15,000	-	(59,355)
(24,515)	5,304	(6,008)	(12,563)	(1,561)	(14,309)	(3,447)	3,475	(170,646)
28,467	147,247	30,898	26,740	2,683	90,735	12,355	236,678	1,482,668
3,952	152,551	24,890	14,177	1,122	76,426	8,908	240,153	1,312,022

Schedule 3

City of Johnston
Combining Schedule of Net Assets
Internal Service Funds

June 30, 2008

	Flexible Spending	Health Deductible Claims	Total
Assets			
Current assets:			
Cash and pooled investments	\$ 953	185,587	186,540
Liabilities			
Current liabilities:			
Accounts payable	-	3,813	3,813
Net Assets			
Unrestricted	\$ 953	181,774	182,727

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, 2008

	Flexible Spending	Health Deductible Claims	Total
Operating revenues:			
Miscellaneous:			
Contributions from employees	\$ 50,841	-	50,841
Contributions from operating funds	-	50,010	50,010
Total operating revenues	50,841	50,010	100,851
Operating expenses:			
Governmental activities:			
Public safety	8,584	9,906	18,490
Public works	7,972	4,174	12,146
Culture and recreation	6,056	5,006	11,062
Community and economic development	13,296	3,221	16,517
General government	14,646	5,807	20,453
Total operating expenses	50,554	28,114	78,668
Operating income	287	21,896	22,183
Net assets beginning of year	666	159,878	160,544
Net assets end of year	\$ 953	181,774	182,727

See accompanying independent auditor's report.

Schedule 5

City of Johnston
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2008

	Flexible Spending	Health Deductible Claims	Total
Cash flows from operating activities:			
Cash received from employees	\$ 50,841	-	50,841
Cash received from operating funds reimbursements	-	50,010	50,010
Cash paid to suppliers	(50,554)	(28,217)	(78,771)
Net cash provided by operating activities and net increase in cash and cash equivalents	287	21,793	22,080
Cash and cash equivalents beginning of year	666	163,794	164,460
Cash and cash equivalents end of year	\$ 953	185,587	186,540
Reconciliation of operating income to net cash provided by operating activities:			
Operating income	\$ 287	21,896	22,183
Adjustment to reconcile operating income to net cash provided by operating activities: (Decrease) in accounts payable	-	(103)	(103)
Net cash provided by operating activities	\$ 287	21,793	22,080

See accompanying independent auditor's report.

City of Johnston

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

For the Last Six Years

	Modified Accrual Basis					
	2008	2007	2006	2005	2004	2003
Revenues:						
Property tax	\$ 9,083,339	8,591,627	6,972,821	6,515,097	5,646,674	4,746,228
Tax increment financing	1,518,773	1,438,376	2,459,927	3,301,694	3,401,251	4,261,942
Other city tax	649,888	699,042	738,623	513,823	616,366	617,209
Licenses and permits	294,597	466,175	680,312	641,324	592,293	460,251
Use of money and property	785,453	793,137	602,449	230,754	103,509	88,204
Intergovernmental	5,868,814	5,012,329	1,938,177	927,284	1,773,123	1,077,389
Charges for service	566,477	441,883	120,298	124,188	197,092	139,542
Special assessments	116,240	186,944	337,237	301,700	164,721	578,576
Miscellaneous	1,164,184	355,279	423,443	309,137	410,718	419,570
Total	\$ 20,047,765	17,984,792	14,273,287	12,865,001	12,905,747	12,388,911
Expenditures:						
Operating:						
Public safety	\$ 2,820,967	2,379,630	1,989,562	2,340,892	1,200,395	1,262,863
Public works	2,676,064	1,818,351	1,696,756	1,959,415	1,333,547	1,172,312
Health and social services	31,557	22,118	30,827	45,633	36,664	50,566
Culture and recreation	2,037,087	1,914,551	1,684,162	1,579,669	1,360,424	1,207,358
Community and economic development	826,826	835,133	787,606	1,987,849	2,515,682	1,841,218
General government	1,203,453	1,290,093	1,129,580	914,988	883,652	889,667
Debt service	5,283,287	4,898,444	5,002,217	3,653,793	3,459,911	3,085,438
Capital projects	8,162,135	8,397,962	8,510,036	1,744,667	2,341,502	3,187,030
Total	\$ 23,041,376	21,556,282	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, 2008

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 3,124
Indirect:			
U.S. Department of Interior:			
Iowa Department of Natural Resources:			
Outdoor Recreation - Acquisition, Development and Planning	15.916	19-01216	49,050
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-3827(605)--70-77	4,326,650
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 07-04, Task 22	1,592
State and Community Highway Safety	20.600	PAP 08-03, Task 22	6,715
			8,307
U.S. Department of Public Defense:			
Iowa Homeland Security and Emergency Management Division:			
Disaster Grants - Public Assistance (Presidentially Declared Disasters)	97.036	FEMA DR-1763	66,788
Total indirect			4,450,795
Total			\$ 4,453,919

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

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Johnston, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 8, 2009. 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 as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing our opinion on the effectiveness of the City of Johnston's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Johnston's internal control over financial reporting.

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

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

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

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, we believe item II-A-08 is a 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. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

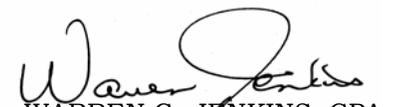
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

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

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of 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

January 8, 2009

**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
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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 program for the year ended June 30, 2008. The City of Johnston's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grant agreements applicable to its major federal program 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 program for the year ended June 30, 2008.

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, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City of Johnston's internal control over compliance.

A control deficiency in the City's internal control over compliance exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect non-compliance with a type of compliance requirement of a federal program on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City's ability to administer a federal program such that there is more than a remote likelihood non-compliance with a type of compliance requirement of a federal program that is more than inconsequential will not be prevented or detected by the City's internal control.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood material non-compliance with a type of compliance requirement of a federal program will not be prevented or detected by the City's internal control.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses, as defined above.

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

January 8, 2009

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

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

- (a) Unqualified opinions were issued on the financial statements.
- (b) Significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements, including 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 program were noted.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (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 program was CFDA Number 20.205 – Highway Planning and Construction.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Johnston did not qualify as a low-risk auditee.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-08 Financial Reporting – During the audit, we identified material amounts of payables and capital asset additions and deletions not recorded in the City’s financial statements. Adjustments were subsequently made by the City to properly include these amounts in the financial statements.

Recommendation – The City should implement procedures to ensure all payables and capital asset additions and deletions are identified and included in the City’s financial statements.

Response – A fixed asset module was added to our financial reporting software which will have complete fiscal year data for the next audit. Engineers were instructed to complete invoicing based on the fiscal year which created fewer issues. Continued efforts to review expenditure reports to record capital asset additions will occur.

Conclusion – Response accepted.

II-B-08 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. If staff is limited, an independent individual should periodically review the report of unpaid permits. The individual should document follow-up of unpaid permits and sign and date the report and retain for auditor inspection.

Response – Building department officials were instructed to run the Incode Report of Balances Due on Building Permits to review the unpaid permits.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

SIGNIFICANT DEFICIENCIES:

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

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

Part IV: Other Findings Related to Required Statutory Reporting:

IV-A-08 Certified Budget – Disbursements during the year ended June 30, 2008 exceeded the amount budgeted in the debt service function. In addition, disbursements exceeded the amount budgeted in the capital projects function before the budget was amended.

Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

Recommendation – The budget should have been amended in sufficient amounts in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The debt service function exceeded due to the Escrow Fund for 2007A. Any escrow interest and/or payments in FY09 will be amended amounts in the budget. Staff will more closely monitor budgeted expenditures in the capital projects programs.

Conclusion – Response accepted.

IV-B-08 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-08 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

IV-D-08 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, through competitive bids	\$ 6,594,585
Mary Davis, Council Member, husband is the owner of Irwin’s Bike and Sport	Miscellaneous	199

In accordance with Chapter 362.5(10) of the Code of Iowa, the transactions with the Council Member do not appear to represent a conflict of interest since total transactions were less than \$1,500 during the fiscal year. The transactions with the Mayor Pro tem do not appear to represent a conflict of interest since the City entered into the contracts through competitive bidding in accordance with Chapter 362.5(4) of the Code of Iowa.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2008

- IV-E-08 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure the coverage is adequate for current operations.
- IV-F-08 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-08 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-08 Water and Sewer Revenue Bonds/Notes – The provisions for the water and sewer revenue bonds/notes require water and sewer user rates be established at a level which produces and maintains net revenues at a level not less than 125% and 110%, respectively, of the amount of principal and interest on the bonds and notes falling due in the same year.

The City was not in compliance with the net revenue requirement for the water revenue bonds/notes as required by the bond resolutions.

Recommendation – The City should ensure user rates are established at a level which produces net revenues of 125% of the annual principal and interest payments on the bonds and notes.

Response – On October 20, 2008, the City retained Veenstra & Kimm, Inc. to complete a water rate study and an analysis of the purchase capacity program offered by Des Moines Water Works.

Conclusion – Response accepted.

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

IV-I-08 Other Information Required by Bond Resolution

Insurance – The following insurance policies were in force at June 30, 2008:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Automobile coverage:		
	Liability	1,000,000	4/1/09
	Uninsured motorists	100,000	4/1/09
	Underinsured motorists	100,000	4/1/09
	Comprehensive/collision	Lesser of cash value or cost of repair	4/1/09
	Auto medical payments	5,000	4/1/09
EMC Insurance Companies	Blanket: Building and personal property	21,266,012	4/1/09
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	4/1/09
	Products aggregate	2,000,000	4/1/09
	Personal/advertising injury	1,000,000	4/1/09
	Each occurrence	1,000,000	4/1/09
	Damage to rented property	100,000	4/1/09
	Medical expense	5,000	4/1/09
EMC Insurance Companies	Commercial crime		
	Employee Theft - Per Employee	600,000	4/1/09
	Forgery or Alteration	10,000	4/1/09
	Inside The Premises	15,000	4/1/09
	Outside the Premises	15,000	4/1/09
	Computer Fraud	600,000	4/1/09
	Funds Transfer Fraud	600,000	4/1/09
EMC Insurance Companies	Inland marine:		
	Contractors equipment	871,729	4/1/09
	Rented contacted equipment	50,000	4/1/09
	Miscellaneous property	454,713	4/1/09
	Data processing - equipment	92,269	4/1/09
EMC Insurance Companies	Commercial umbrella:		
	Each occurrence	1,000,000	4/1/09
	General aggregate	10,000,000	4/1/09
	Products- Completed Operations Aggregate	2,000,000	4/1/09
	Personal/Advertising Injury	1,000,000	4/1/09
	Employee Benefit Liability Occurrence	1,000,000	4/1/09
	Retained limit	10,000	4/1/09
EMC Insurance Companies	Workers' compensation:		
	Bodily injury by accident	500,000	4/1/09
	Bodily injury by disease each employee	500,000	4/1/09
	Bodily injury by disease policy limit	500,000	4/1/09
EMC Insurance Companies	Linebacker:		
	Each loss	1,000,000	4/1/09
	Aggregate	1,000,000	4/1/09

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2008

Statistical Information

<u>Description</u>	<u>Amount</u>
Sewer customers served at June 30, 2008	4,568

Sewer rates in effect at June 30, 2008: Service availability fee per month of \$3.87 plus \$3.57 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:

Donna F. Kruger, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
Brett C. Conner, Staff Auditor
Mike D. Eckard, Staff Auditor
Keith C. Kistenmacher, Staff Auditor
Brett M. Zeller, Staff Auditor
Sara L. Roling, Assistant Auditor
Lara K. Van Wyk, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State