



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE

January 30, 2008

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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 \$26,277,328 for the year ended June 30, 2007, a 2.8 percent increase over 2006. Revenues included \$8,968,878 from property tax, \$321,791 from hotel/motel tax, \$1,438,376 from tax increment financing, \$5,946,666 from charges for service, \$1,851,157 from operating grants, contributions and restricted interest, \$6,904,354 from capital grants, contributions and restricted interest, \$505,551 from unrestricted investment earnings and \$340,555 from other general revenues.

Expenses for City operations totaled \$16,571,649, a 7.0 percent increase over 2006. Expenses included \$3,295,483 for public works, \$2,452,261 for public safety and \$2,116,330 for culture and recreation. Expenses for business type activities totaled \$4,584,819.

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

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CITY OF JOHNSTON

INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS

JUNE 30, 2007

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City of Johnston

Officials

<u>Name</u>	<u>Title</u>	<u>Term 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	City Clerk	Indefinite
Timothy Pearson	Attorney	Indefinite

City of Johnston



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Johnston, Iowa, as of and for the year ended June 30, 2007, 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.

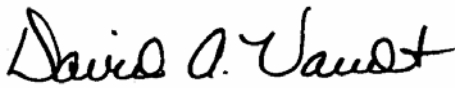
We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain 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, 2007, 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.

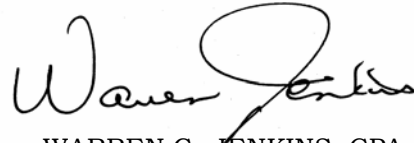
In accordance with Government Auditing Standards, we have also issued our report dated January 9, 2008 on our consideration of the City of Johnston's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements 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 four years ended June 30, 2006 (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 9, 2008

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, 2007. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2007 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds increased \$3,711,505, or approximately 26%, from fiscal 2006 to fiscal 2007. Property tax and intergovernmental revenues increased approximately \$1,618,800 and \$3,074,200, respectively, while tax increment financing decreased approximately \$1,021,500.
- Governmental fund expenditures increased \$725,536, or approximately 3%, in fiscal 2007 over fiscal 2006. Public safety and culture and recreation expenditures increased approximately \$390,000 and \$230,400, respectively. Capital projects and debt service expenditures decreased approximately \$112,100 and \$103,800, respectively.
- The City's net assets increased approximately 13%, or approximately \$9,705,700, from June 30, 2006 to June 30, 2007. Of this amount, the net assets of the governmental activities increased approximately \$6,220,600 and the net assets of the business type activities increased approximately \$3,485,100.

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, 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.

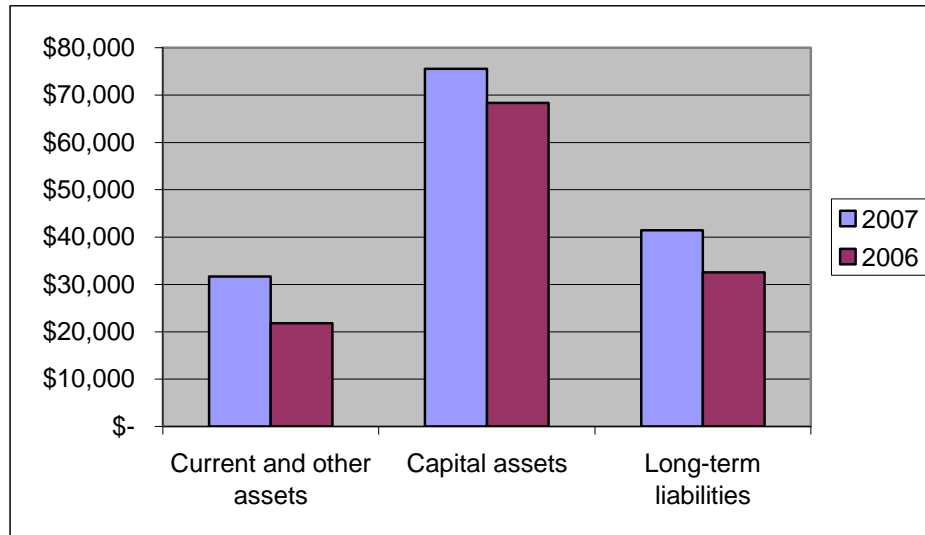
Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

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						
	(Expressed in Thousands)						
	Governmental Activities		Business Type Activities		Total		Percent Change
	June 30,		June 30,		June 30,		June 30,
	2007	2006	2007	2006	2007	2006	2006-2007
Current and other assets	\$ 31,689	21,826	11,166	8,118	42,855	29,944	43.1%
Capital assets	75,572	68,323	36,890	35,883	112,462	104,206	7.9%
Total assets	107,261	90,149	48,056	44,001	155,317	134,150	15.8%
Long-term liabilities	41,453	32,546	14,267	12,742	55,720	45,288	23.0%
Other liabilities	13,004	11,020	338	1,292	13,342	12,312	8.4%
Total liabilities	54,457	43,566	14,605	14,034	69,062	57,600	19.9%
Net assets:							
Invested in capital assets, net of related debt	42,884	38,096	23,108	23,156	65,992	61,252	7.7%
Restricted	7,668	6,592	4,349	1,408	12,017	8,000	50.2%
Unrestricted	2,252	1,895	5,994	5,403	8,246	7,298	13.0%
Total net assets	\$ 52,804	46,583	33,451	29,967	86,255	76,550	12.7%

The following chart presents a comparison of governmental activities assets and liabilities for fiscal 2007 and fiscal 2006:



Net assets of governmental activities increased from fiscal 2006 by approximately 13%, or \$6,220,600. Net assets of business type activities increased from fiscal 2006 by approximately 12%, or \$3,485,100. Current and other assets increased by approximately \$12,911,000, or 43%, from fiscal 2006, primarily due to bond proceeds held at the end of fiscal 2007 that were spent in fiscal 2008, cash and investments held in escrow for a crossover refunding debt issuance and an increase in due from other governments for the reimbursement due on the NW 70th project. Capital assets increased over fiscal 2006 by approximately \$8,256,000, or 8%, primarily due to progress made on the NW 70th Avenue/Merle Hay Road street improvements, the NW 62nd Avenue street improvements and the Eagle Pointe storm drainage improvements. Other liabilities increased 8%, or approximately \$1,030,000, from fiscal 2006. This increase was primarily due to an increase in contracts payable related to the NW 70th Avenue project and increases in deferred revenue for succeeding year property tax and tax increment financing.

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 2006 by approximately \$4,740,000, or 8%, 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 \$8,246,000 at the end of this year. Restricted net assets increased over fiscal 2006 by approximately \$4,017,000, or 50%, and unrestricted net assets increased from 2006 by approximately \$948,000, or 13%. The increase in restricted net assets is primarily due to a change in funds held that are restricted 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,	
	2007	2006	2007	2006	2007	2006	2006-2007	
Revenues:								
Program revenues:								
Charges for service	\$ 1,177	963	\$ 4,770	4,160	\$ 5,947	5,123	16.1%	
Operating grants, contributions and restricted interest	1,851	1,299	-	-	1,851	1,299	42.5%	
Capital grants, contributions and restricted interest	4,323	5,312	2,582	2,873	6,905	8,185	-15.6%	
General revenues:								
Property and other city tax levied for:								
General purposes	5,981	5,138	-	-	5,981	5,138	16.4%	
Debt service	2,988	2,192	-	-	2,988	2,192	36.3%	
Hotel/motel tax	322	383	-	-	322	383	-15.9%	
Tax increment financing	1,438	2,460	-	-	1,438	2,460	-41.5%	
Unrestricted investment earnings	147	72	358	220	505	292	72.9%	
Gain on disposition of capital assets	16	68	-	-	16	68	-76.5%	
Miscellaneous	48	62	276	363	324	425	-23.8%	
Total revenues	<u>18,291</u>	<u>17,949</u>	<u>7,986</u>	<u>7,616</u>	<u>26,277</u>	<u>25,565</u>	<u>2.8%</u>	
Program expenses:								
Public safety	2,452	2,081	-	-	2,452	2,081	17.8%	
Public works	3,296	3,072	-	-	3,296	3,072	7.3%	
Health and social service	22	31	-	-	22	31	-29.0%	
Culture and recreation	2,116	1,823	-	-	2,116	1,823	16.1%	
Community and economic development	839	806	-	-	839	806	4.1%	
General government	1,266	1,143	-	-	1,266	1,143	10.8%	
Interest and developer agreement debt	1,996	2,415	-	-	1,996	2,415	-17.3%	
Water	-	-	2,999	2,827	2,999	2,827	6.1%	
Sewer	-	-	1,586	1,282	1,586	1,282	23.7%	
Total expenses	<u>11,987</u>	<u>11,371</u>	<u>4,585</u>	<u>4,109</u>	<u>16,572</u>	<u>15,480</u>	<u>7.1%</u>	
Excess of revenues over expenses	6,304	6,578	3,401	3,507	9,705	10,085	-3.8%	
Operating transfers, net	(83)	(546)	83	546	-	-	0.0%	
Net assets beginning of year	<u>46,583</u>	<u>40,551</u>	<u>29,967</u>	<u>25,914</u>	<u>76,550</u>	<u>66,465</u>	<u>15.2%</u>	
Net assets end 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>	

While the tax rate remained the same, general purpose tax revenue increased approximately \$843,000 as a result of increased taxable valuation. Tax increment financing valuation has been released over the past three years, which has increased the taxable valuation used to calculate the general fund tax levy and decreased tax increment financing revenues by approximately \$1,022,000, or 42%.

Overall revenues increased approximately \$712,000, or 3%, from FY06 to FY07. Charges for service increased, primarily due to increased ambulance charges and increased water and sewer usage. Operating grants, contributions and restricted interest increased primarily due to an increase in road use tax collections and increases in interest restricted for debt service. Capital grants, contributions and restricted interest decreased due to a decrease in developer contributed infrastructure. Unrestricted investment earnings increased due to rising interest rates.

Expenses increased overall approximately \$1,091,000, or 7%. Expenses for public safety increased due to the additional ambulance service offered by the Johnston Fire Department beginning January 1, 2006 and the addition of new police officers. Expenses for culture and recreation increased due to increased library services and additional park equipment. Expenses for interest and developer agreement debt decreased due to fulfillment of the developer debt for Deere Credit. Expenses for sewer increased due to increases in depreciation expense and interest paid on debt.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Johnston completed the year, its governmental funds reported a combined fund balance of \$17,589,903, an increase of \$8,194,629 over last year's total of \$9,395,274. The following are the major reasons for the changes in fund balances of the governmental funds from the prior year.

The General Fund balance increased \$895,128 to \$2,848,699, a change of 46%. Approximately \$650,000 of the increase is attributable to unspent bond proceeds which were expended in fiscal year 2008.

The Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund balance increased \$209,395 to \$4,452,245, a change of only 4.9%.

The Debt Service Fund balance increased \$6,131,982 to \$6,569,807. This increase was primarily due to cash held in escrow on a crossover refunding debt issuance.

The Capital Projects Fund balance increased \$542,600 to \$2,236,484. The increase is due to higher cash balances held by the City to be used on various projects as construction progresses.

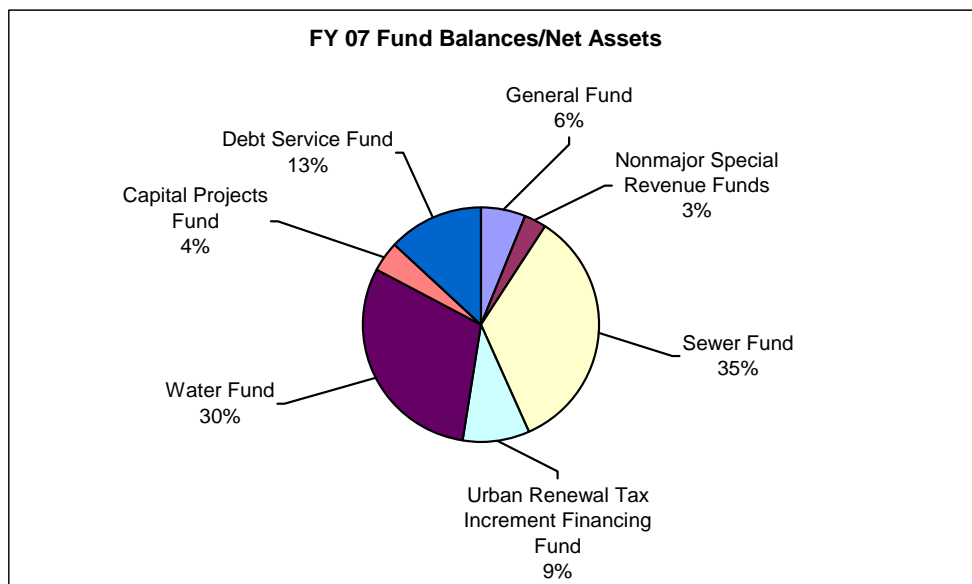
Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2007 with a \$15,035,370 net asset balance compared to the prior year ending net asset balance of \$14,419,949, an increase of approximately 4%.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment system, ended fiscal 2007 with an \$18,416,174 net asset balance compared to the prior year ending net asset balance of \$15,546,518, an increase of 18%.

Net assets in both the Water and Sewer Funds increased due to improvements donated to the City by developers. In addition, collections for service connection fees charged by the City increased over the prior year and a new special assessment for the NW Beaver Drive sewer was approved during fiscal year 2007.

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 20, 2007. The second amendment was approved on May 21, 2007. 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 \$429,332 more than budgeted receipts, a variance of only 1.9%.

Total disbursements were \$6,990,119 less than budgeted. Actual disbursements for the debt service and capital projects functions were \$3,479,268 and \$1,963,716, respectively, less than budgeted. The budget variance in the debt service function is attributable to the City including \$3,625,000 in the City's budget for the payment of bonds from a refunding note issuance. However, the payment of related bonds is accounted for as an other financing use in the financial statements. 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 City did not exceed budgeted amounts for the year ended June 30, 2007.

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 \$75,571,835 (net of accumulated depreciation) at June 30, 2007. Capital assets for business type activities totaled \$36,889,964 (net of accumulated depreciation) at June 30, 2007. 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,
	2007	2006	2007	2006	2007	2006	2006-2007
Land	\$ 3,040	3,022	60	60	3,100	3,082	0.6%
Construction in progress	15,365	8,451	2,750	8,007	18,115	16,458	10.1%
Buildings	6,823	7,006	-	-	6,823	7,006	-2.6%
Improvements other than buildings	521	429	-	-	521	429	21.4%
Equipment and vehicles	2,701	2,594	219	165	2,920	2,759	5.8%
Infrastructure, road network	46,728	46,394	-	-	46,728	46,394	0.7%
Infrastructure, water/sewer network	-	-	33,861	27,651	33,861	27,651	22.5%
Infrastructure, other	394	427	-	-	394	427	-7.7%
Total	\$ 75,572	68,323	36,890	35,883	112,462	104,206	7.9%

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

For business type activities, major additions included infrastructure related to the NW Beaver Drive sanitary sewer.

Long-Term Debt

At June 30, 2007, the City had \$41,143,123 in general obligation bonds/notes outstanding for governmental activities. Total general obligation and revenue bonds/notes outstanding for business type activities was \$14,252,497 at June 30, 2007. 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,
	2007	2006	2007	2006	2007	2006	2006-2007
General obligation bonds/notes	\$ 41,143	32,286	2,764	2,494	43,907	34,780	26.2%
Revenue bonds/notes	-	-	11,488	10,232	11,488	10,232	12.3%
Total	\$ 41,143	32,286	14,252	12,726	55,395	45,012	23.1%

During the year ended June 30, 2007, the City issued \$6,210,000 in general obligation bonds, Series 2006B. The bonds were issued primarily to fund improvements to NW 62nd, NW 70th, NW 86th, NW 54th and 72nd Streets, NW 73rd storm drainage and NW area sanitary sewer.

During the year ended June 30, 2007, the City issued \$3,625,000 in general obligation refunding notes, Series 2006C. The notes were issued to refund the Series 1996 and Series 1998 general obligation bonds.

In addition, the City issued \$5,895,000 in crossover refunding notes, Series 2007A. The proceeds from the notes will be used to refund Series 1999B general obligation bonds for redemption on June 1, 2008 and 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.

Funding for the NW Beaver Drive sanitary sewer project was secured with State Revolving Fund revenue bonds, Series 2005A of \$3,535,000 and Series 2006A of \$2,800,000. At June 30, 2007, the City had drawn down bond proceeds totaling \$6,330,000.

ECONOMIC FACTORS BEARING ON THE CITY'S FUTURE

Several factors affected decisions made by the City in setting its fiscal 2008 budget.

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

The state imposed roll back on residential properties decreased from 45.9960% to 45.5596%. The rollback on commercial properties increased from 99.1509% to 100%. Based on 2006 valuations, the City loses \$5,969,617 in residential property valuation and gains \$2,421,115 in commercial/industrial valuation for a net decrease of \$3,548,502 in taxable valuation, or \$40,109 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 FY08 budget, with the anticipated valuation growth in TIF #4 (Windsor Office Park), the TIF valuation increased \$3,331,910. However, including this increase, the total amount of TIF valuation that has been released since 2001 is \$92,748,336.

The General Fund is projected to end fiscal 2008 with a fund balance of \$1,409,295.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2008 are as follows:

General Fund levy	\$ 7.72833
Debt Service levy	<u>3.57465</u>
Total	<u>\$ 11.30298</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 St. The City will also be fulfilling its \$650,000 obligation to Polk County for the NW 54th Avenue Project.

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, 2007

	Governmental Activities	Business Type Activities	Total
Assets			
Cash and pooled investments	\$ 12,307,135	5,939,478	18,246,613
Cash and investments held in escrow	6,064,841	-	6,064,841
Cash and investments held by the Library Foundation	236,678	-	236,678
Receivables:			
Property tax:			
Delinquent	60,694	-	60,694
Succeeding year	8,532,000	-	8,532,000
Tax increment financing:			
Delinquent	12,552	-	12,552
Succeeding year	1,680,000	-	1,680,000
Customer accounts and unbilled usage	-	634,181	634,181
Accounts	267,010	23,875	290,885
Special assessments	869,166	1,519,658	2,388,824
Accrued interest	49,225	30,539	79,764
Due from other governments	1,624,126	501,000	2,125,126
Due from other funds	(240,929)	240,929	-
Inventories	-	219,096	219,096
Prepaid expenses	226,931	22,334	249,265
Restricted assets:			
Cash and pooled investments	-	2,025,272	2,025,272
Receivables:			
Accounts	-	1,255	1,255
Accrued interest	-	1,247	1,247
Unamortized bond issue costs	-	7,206	7,206
Capital assets (net of accumulated depreciation)	57,166,687	34,079,946	91,246,633
Capital assets not being depreciated	18,405,148	2,810,018	21,215,166
Total assets	107,261,264	48,056,034	155,317,298

City of Johnston
Statement of Net Assets
June 30, 2007

	Governmental Activities	Business Type Activities	Total
Liabilities			
Accounts payable	162,155	21,101	183,256
Accrued interest payable	140,402	8,172	148,574
Salaries and benefits payable	79,935	6,888	86,823
Contracts payable	2,245,094	39,762	2,284,856
Trusts payable	154,945	-	154,945
Due to other governments	2,431	216,184	218,615
Deferred revenue:			
Succeeding year property tax	8,532,000	-	8,532,000
Succeeding year tax increment financing	1,680,000	-	1,680,000
Other	7,925	-	7,925
Liabilities payable from restricted assets:			
Customer deposits	-	10,000	10,000
Revenue bonds/notes	-	607,000	607,000
Accrued interest	-	35,462	35,462
Long-term liabilities:			
Portion due or payable within one year:			
General obligation bonds/notes	3,120,100	249,900	3,370,000
Compensated absences	249,163	13,490	262,653
Portion due or payable after one year:			
General obligation bonds/notes	38,023,023	2,514,500	40,537,523
Revenue bonds/notes	-	10,881,097	10,881,097
Compensated absences	60,390	934	61,324
Total liabilities	54,457,563	14,604,490	69,062,053
Net Assets			
Invested in capital assets, net of related debt	42,883,515	23,108,317	65,991,832
Restricted for:			
Debt service	4,238,900	-	4,238,900
Capital projects	1,946,664	-	1,946,664
Revenue bond and note retirement	-	3,693,589	3,693,589
Improvements	-	655,284	655,284
Other purposes	1,482,948	-	1,482,948
Unrestricted	2,251,674	5,994,354	8,246,028
Total net assets	\$ 52,803,701	33,451,544	86,255,245

See notes to financial statements.

City of Johnston
Statement of Activities
Year ended June 30, 2007

	Expenses	Program Revenues		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Governmental activities:				
Public safety	\$ 2,452,261	268,142	51,316	-
Public works	3,295,483	284,203	1,197,443	4,191,934
Health and social services	22,118	-	2,830	-
Culture and recreation	2,116,330	85,970	190,185	96,504
Community and economic development	839,190	504,761	4,846	-
General government	1,265,573	33,583	-	-
Interest and developer agreement debt	1,995,875	-	404,537	34,120
Total governmental activities	11,986,830	1,176,659	1,851,157	4,322,558
Business type activities:				
Water	2,998,788	2,796,700	-	296,559
Sewer	1,586,031	1,973,307	-	2,285,237
Total business type activities	4,584,819	4,770,007	-	2,581,796
Total	\$ 16,571,649	5,946,666	1,851,157	6,904,354

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
(2,132,803)	-	(2,132,803)
2,378,097	-	2,378,097
(19,288)	-	(19,288)
(1,743,671)	-	(1,743,671)
(329,583)	-	(329,583)
(1,231,990)	-	(1,231,990)
(1,557,218)	-	(1,557,218)
(4,636,456)	-	(4,636,456)
-	94,471	94,471
-	2,672,513	2,672,513
-	2,766,984	2,766,984
(4,636,456)	2,766,984	(1,869,472)
5,980,573	-	5,980,573
2,988,305	-	2,988,305
321,791	-	321,791
1,438,376	-	1,438,376
147,300	358,251	505,551
15,900	-	15,900
48,078	276,577	324,655
(83,265)	83,265	-
10,857,058	718,093	11,575,151
6,220,602	3,485,077	9,705,679
46,583,099	29,966,467	76,549,566
\$ 52,803,701	33,451,544	86,255,245

City of Johnston
Balance Sheet
Governmental Funds

June 30, 2007

	Special Revenue		
	General	Urban Renewal	
		Tax Increment Financing	Debt Service
Assets			
Cash and pooled investments	\$ 2,692,966	4,457,891	482,550
Cash and investment held in escrow	-	-	6,064,841
Cash and investments held by the Library Foundation	-	-	-
Receivables:			
Property tax:			
Delinquent	40,239	-	20,455
Succeeding year	5,729,000	-	2,803,000
Tax increment financing:			
Delinquent	-	12,552	-
Succeeding year	-	1,680,000	-
Accounts	264,740	-	-
Special assessments	-	-	845,112
Accrued interest	14,089	18,027	1,961
Due from other governments	117,249	-	-
Prepaid expenditures	226,931	-	-
Total assets	\$ 9,085,214	6,168,470	10,217,919
Liabilities and Fund Balances			
Liabilities:			
Accounts payable	\$ 113,673	-	-
Salaries and benefits payable	76,900	-	-
Contracts payable	101,842	36,225	-
Trusts payable	-	-	-
Due to other governments	2,124	-	-
Due to other funds	-	-	-
Deferred revenue:			
Succeeding year property tax	5,729,000	-	2,803,000
Succeeding year tax increment financing	-	1,680,000	-
Other	212,976	-	845,112
Total liabilities	<u>6,236,515</u>	<u>1,716,225</u>	<u>3,648,112</u>
Fund balances:			
Reserved for:			
Debt service	-	4,452,245	6,569,807
Capital projects	653,067	-	-
Unreserved:			
Undesignated:			
Reported in:			
General fund	2,195,632	-	-
Special revenue funds	-	-	-
Total fund balances	<u>2,848,699</u>	<u>4,452,245</u>	<u>6,569,807</u>
Total liabilities and fund balances	\$ 9,085,214	6,168,470	10,217,919

See notes to financial statements.

Capital Projects	Nonmajor	Total
3,322,205	1,187,063	12,142,675
-	-	6,064,841
-	236,678	236,678
-	-	60,694
-	-	8,532,000
-	-	12,552
-	-	1,680,000
-	2,270	267,010
24,054	-	869,166
13,556	1,592	49,225
1,412,865	94,012	1,624,126
-	-	226,931
<u>4,772,680</u>	<u>1,521,615</u>	<u>31,765,898</u>
13,924	30,642	158,239
-	3,035	79,935
2,102,344	4,683	2,245,094
154,945	-	154,945
-	307	2,431
240,929	-	240,929
-	-	8,532,000
-	-	1,680,000
24,054	280	1,082,422
<u>2,536,196</u>	<u>38,947</u>	<u>14,175,995</u>
-	-	11,022,052
2,236,484	-	2,889,551
-	-	2,195,632
-	1,482,668	1,482,668
<u>2,236,484</u>	<u>1,482,668</u>	<u>17,589,903</u>
<u>4,772,680</u>	<u>1,521,615</u>	<u>31,765,898</u>

City of Johnston

City of Johnston

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

June 30, 2007

Total governmental fund balances (page 23) \$ 17,589,903

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the funds. The cost of assets is \$92,005,517 and the accumulated depreciation is \$16,433,682. 75,571,835

Other long-term assets are not available to pay current period expenditures and, therefore, are deferred in the funds. 1,074,497

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. 160,544

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 funds. (41,593,078)

Net assets of governmental activities (page 19) \$ 52,803,701

See notes to financial statements.

City of Johnston

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

Year ended June 30, 2007

	Special Revenue		
	General	Urban Renewal Tax Increment Financing	Debt Service
Revenues:			
Property tax	\$ 5,725,073	-	2,866,554
Tax increment financing	-	1,438,376	-
Other city tax	577,291	-	121,751
Licenses and permits	466,175	-	-
Use of money and property	189,571	196,880	207,657
Intergovernmental	221,623	-	-
Charges for service	430,585	-	-
Special assessments	-	-	179,519
Miscellaneous	131,542	-	-
Total revenues	7,741,860	1,635,256	3,375,481
Expenditures:			
Operating:			
Public safety	2,362,373	-	-
Public works	1,075,198	-	-
Health and social services	22,118	-	-
Culture and recreation	1,881,506	-	-
Community and economic development	727,771	82,900	-
General government	1,290,093	-	-
Debt service	-	295,359	4,603,085
Capital projects	-	-	-
Total expenditures	7,359,059	378,259	4,603,085
Excess (deficiency) of revenues over (under) expenditures	382,801	1,256,997	(1,227,604)
Other financing sources (uses):			
Operating transfers in	21,292	97,008	1,246,381
Operating transfers out	(178,395)	(1,144,610)	-
General obligation bonds/notes issued	669,430	-	9,528,948
Premium on general obligation notes	-	-	220,494
Discount on general obligation bonds/notes	-	-	(11,237)
General obligation bonds refunded	-	-	(3,625,000)
Total other financing sources (uses)	512,327	(1,047,602)	7,359,586
Net change in fund balances	895,128	209,395	6,131,982
Fund balances beginning of year	1,953,571	4,242,850	437,825
Fund balances end of year	\$ 2,848,699	4,452,245	6,569,807

See notes to financial statements.

Capital Projects	Nonmajor	Total
-	-	8,591,627
-	-	1,438,376
-	-	699,042
-	-	466,175
156,428	42,601	793,137
3,631,131	1,159,575	5,012,329
-	11,298	441,883
7,425	-	186,944
135,915	87,822	355,279
<u>3,930,899</u>	<u>1,301,296</u>	<u>17,984,792</u>
-	17,257	2,379,630
-	743,153	1,818,351
-	-	22,118
-	33,045	1,914,551
-	24,462	835,133
-	-	1,290,093
-	-	4,898,444
8,397,962	-	8,397,962
<u>8,397,962</u>	<u>817,917</u>	<u>21,556,282</u>
<u>(4,467,063)</u>	<u>483,379</u>	<u>(3,571,490)</u>
246,250	17,145	1,628,076
(220,071)	(85,000)	(1,628,076)
5,021,622	-	15,220,000
-	-	220,494
(38,138)	-	(49,375)
-	-	(3,625,000)
<u>5,009,663</u>	<u>(67,855)</u>	<u>11,766,119</u>
542,600	415,524	8,194,629
<u>1,693,884</u>	<u>1,067,144</u>	<u>9,395,274</u>
<u>2,236,484</u>	<u>1,482,668</u>	<u>17,589,903</u>

City of Johnston

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

Year ended June 30, 2007

Net change in fund balances - Total governmental funds (page 27) \$ 8,194,629

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	\$ 8,671,178	
Capital assets contributed by developers and others	590,868	
Depreciation expense	<u>(2,029,129)</u>	7,232,917

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. 15,900

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. (300,863)

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	(15,440,494)	
Repaid	<u>6,583,071</u>	(8,857,423)

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	(48,960)	
Accrued interest on long-term debt	<u>(55,502)</u>	(104,462)

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. 39,904

Change in net assets of governmental activities (page 21) \$ 6,220,602

See notes to financial statements.

City of Johnston
Statement of Net Assets
Proprietary Funds
June 30, 2007

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Assets				
Current assets:				
Cash and pooled investments	\$ 2,690,466	3,249,012	5,939,478	164,460
Receivables:				
Customer accounts and unbilled usage	442,042	192,139	634,181	-
Accounts	19,360	4,515	23,875	-
Special assessments	-	1,519,658	1,519,658	-
Accrued interest	13,198	17,341	30,539	-
Due from other governments	-	501,000	501,000	-
Due from other funds	240,929	-	240,929	-
Inventories	219,096	-	219,096	-
Prepaid expenses	11,167	11,167	22,334	-
Restricted assets:				
Cash and pooled investments	884,805	1,140,467	2,025,272	-
Receivables:				
Accounts	1,255	-	1,255	-
Accrued interest	1,197	50	1,247	-
Unamortized bond issue costs	7,206	-	7,206	-
Capital assets (net of accumulated depreciation)	14,823,508	19,256,438	34,079,946	-
Capital assets not being depreciated	749,601	2,060,417	2,810,018	-
Total assets	20,103,830	27,952,204	48,056,034	164,460

City of Johnston
Statement of Net Assets
Proprietary Funds

June 30, 2007

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Liabilities				
Current liabilities:				
Accounts payable	11,903	9,198	21,101	3,916
Accrued interest payable on general obligation bonds	-	8,172	8,172	-
Salaries and benefits payable	3,444	3,444	6,888	-
Contracts payable	29,709	10,053	39,762	-
Due to other governments	213,352	2,832	216,184	-
Compensated absences	6,745	6,745	13,490	-
General obligation bonds	-	249,900	249,900	-
Current liabilities payable from restricted assets:				
Customer deposits	10,000	-	10,000	-
Revenue bonds and notes	240,000	367,000	607,000	-
Accrued interest	18,743	16,719	35,462	-
Long-term liabilities:				
General obligation bonds	-	2,514,500	2,514,500	-
Revenue bonds and notes (net of unamortized discount)	4,534,097	6,347,000	10,881,097	-
Compensated absences	467	467	934	-
Total liabilities	5,068,460	9,536,030	14,604,490	3,916
Net Assets				
Invested in capital assets, net of related debt	10,799,013	12,309,304	23,108,317	-
Restricted for:				
Revenue bond and note retirement	582,500	3,111,089	3,693,589	-
Improvements	155,284	500,000	655,284	-
Unrestricted	3,498,573	2,495,781	5,994,354	160,544
Total net assets	\$ 15,035,370	18,416,174	33,451,544	160,544

See notes to financial statements.

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

Year ended June 30, 2007

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Operating revenues:				
Charges for service	\$ 2,597,325	1,637,249	4,234,574	-
Miscellaneous	254,422	22,155	276,577	83,162
Total operating revenues	<u>2,851,747</u>	<u>1,659,404</u>	<u>4,511,151</u>	<u>83,162</u>
Operating expenses:				
Governmental activities:				
Public safety	-	-	-	9,344
Public works	-	-	-	5,901
Culture and recreation	-	-	-	7,202
Community and economic development	-	-	-	3,783
General government	-	-	-	17,028
Business type activities:				
Cost of sales and services	2,356,488	814,210	3,170,698	-
Depreciation	327,683	463,572	791,255	-
Total operating expenses	<u>2,684,171</u>	<u>1,277,782</u>	<u>3,961,953</u>	<u>43,258</u>
Operating income	<u>167,576</u>	<u>381,622</u>	<u>549,198</u>	<u>39,904</u>
Non-operating revenues (expenses):				
Loss on disposal of capital assets	(70,254)	(6,497)	(76,751)	-
Interest income	183,263	174,988	358,251	-
Interest expense	(244,363)	(301,752)	(546,115)	-
Service connection fees	199,375	336,058	535,433	-
Special assessments	-	1,939,594	1,939,594	-
Total non-operating revenues (expenses)	<u>68,021</u>	<u>2,142,391</u>	<u>2,210,412</u>	<u>-</u>
Net income before contributions	235,597	2,524,013	2,759,610	39,904
Capital contributions	379,824	345,643	725,467	-
Changes in net assets	615,421	2,869,656	3,485,077	39,904
Net assets beginning of year	14,419,949	15,546,518	29,966,467	120,640
Net assets end of year	<u>\$ 15,035,370</u>	<u>18,416,174</u>	<u>33,451,544</u>	<u>160,544</u>

See notes to financial statements.

Exhibit I

City of Johnston
Statement of Cash Flows
Proprietary Funds
Year ended June 30, 2007

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Cash flows from operating activities:				
Cash received from customers, users and employees	\$ 2,659,443	1,668,215	4,327,658	83,162
Cash received from other revenues	249,106	21,692	270,798	-
Cash paid for personal services	(246,933)	(246,079)	(493,012)	-
Cash paid to suppliers	(2,110,967)	(571,985)	(2,682,952)	(40,860)
Net cash provided by operating activities	550,649	871,843	1,422,492	42,302
Cash flows from capital and related financing activities:				
Acquisition of capital assets	(226,853)	(1,798,453)	(2,025,306)	-
Special assessments	-	478,643	478,643	-
Service connection fees	200,188	333,268	533,456	-
Revenue note proceeds	-	1,824,684	1,824,684	-
General obligation bond proceeds	-	510,000	510,000	-
Reimbursements from others	-	83,500	83,500	-
Principal paid on revenue bonds and notes	(220,000)	(354,000)	(574,000)	-
Principal paid on general obligation bonds	-	(239,900)	(239,900)	-
Interest paid on revenue bonds and notes	(238,941)	(194,538)	(433,479)	-
Interest paid on general obligation bonds	-	(108,493)	(108,493)	-
Net cash provided (used) by capital and related financing activities	(485,606)	534,711	49,105	-
Cash flows from noncapital financing activities:				
Transfers to other funds	(240,929)	-	(240,929)	-
Cash flows from investing activities:				
Interest on investments	181,950	166,681	348,631	-
Net increase in cash and cash equivalents	6,064	1,573,235	1,579,299	42,302
Cash and cash equivalents beginning of year	3,569,207	2,816,244	6,385,451	122,158
Cash and cash equivalents end of year	\$ 3,575,271	4,389,479	7,964,750	164,460

See notes to financial statements.

City of Johnston
 Statement of Cash Flows
 Proprietary Funds
 Year ended June 30, 2007

	Business Type			Governmental
	Activities			Activities
	Enterprise			Internal
	Water	Sewer	Total	Service
Reconciliation of operating income to net cash provided by operating activities:				
Operating income	\$ 167,576	381,622	549,198	39,904
Adjustments to reconcile operating income to net cash provided by operating activities:				
Depreciation	327,683	463,572	791,255	-
(Increase) in customer accounts and unbilled usage and other accounts receivable	56,802	30,503	87,305	-
Decrease in special assessment receivable	42,600	-	42,600	-
Decrease in inventories	37,508	-	37,508	-
(Increase) in prepaid expenses	(3,624)	(3,659)	(7,283)	-
Increase (decrease) in accounts payable	(13,055)	(12,154)	(25,209)	2,398
Increase in salaries payable	128	127	255	-
Increase in contract payables	18,258	10,693	28,951	-
(Decrease) in compensated absences	(682)	(682)	(1,364)	-
(Decrease) in customer deposits	(2,575)	-	(2,575)	-
Increase (decrease) in due to other governments	(79,970)	1,821	(78,149)	-
Net cash provided by operating activities	<u>\$ 550,649</u>	<u>871,843</u>	<u>1,422,492</u>	<u>42,302</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	\$ 2,690,466	3,249,012	5,939,478	164,460
Restricted assets:				
Cash and pooled investments:	884,805	1,140,467	2,025,272	-
	<u>\$ 3,575,271</u>	<u>4,389,479</u>	<u>7,964,750</u>	<u>164,460</u>

Non-cash investing, capital and related financing activities:

During the year ended June 30, 2007, developers contributed water main and sanitary sewer extensions totaling \$323,072 and \$319,130 respectively, to the Enterprise, Water and Sewer Funds. In addition, the Capital Projects Fund contributed water main and sanitary sewer extensions totaling \$56,752 and \$26,513, respectively, to the Enterprise, Water and Sewer Funds.

City of Johnston

Notes to Financial Statements

June 30, 2007

(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 special revenue 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, 2007 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, 2005 assessed property valuations; is for the tax accrual period July 1, 2006 through June 30, 2007 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2006.

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 (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, 2007. 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, 2007, disbursements did not exceed the amounts budgeted.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2007 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 \$19,765,035 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, 2007 the City had the following investments:

Type	Carrying Amount	Fair Value	Maturity
U.S. Government Treasury Notes	\$ 17,695	17,695	December 2007
U.S. Government Treasury Notes	1,277,696	1,277,696	June 2008
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	\$ 6,064,032	6,064,032	

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, 2007 was as follows:

	Balance Beginning of of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 3,022,390	17,585	-	3,039,975
Construction in progress	8,451,150	8,173,123	(1,259,100)	15,365,173
Total capital assets not being depreciated	11,473,540	8,190,708	(1,259,100)	18,405,148
Capital assets being depreciated:				
Buildings	8,155,693	-	-	8,155,693
Improvements other than buildings	492,514	120,378	-	612,892
Equipment and vehicles	4,865,254	496,370	(95,257)	5,266,367
Infrastructure, road network	57,172,216	1,729,590	-	58,901,806
Infrastructure, other	663,611	-	-	663,611
Total capital assets being depreciated	71,349,288	2,346,338	(95,257)	73,600,369
Less accumulated depreciation for:				
Buildings	1,149,965	182,349	-	1,332,314
Improvements other than buildings	63,991	28,494	-	92,485
Equipment and vehicles	2,271,481	388,798	(95,257)	2,565,022
Infrastructure, road network	10,777,912	1,396,307	-	12,174,219
Infrastructure, other	236,461	33,181	-	269,642
Total accumulated depreciation	14,499,810	2,029,129	(95,257)	16,433,682
Total capital assets being depreciated, net	56,849,478	317,209	-	57,166,687
Governmental activities capital assets, net	\$ 68,323,018	8,507,917	(1,259,100)	75,571,835
Business type activities:				
Capital assets not being depreciated:				
Land	\$ 60,178	-	-	60,178
Construction in progress	8,006,738	1,139,094	(6,395,992)	2,749,840
Total capital assets not being depreciated	8,066,916	1,139,094	(6,395,992)	2,810,018
Capital assets being depreciated:				
Equipment and vehicles	317,821	97,666	(35,926)	379,561
Infrastructure, water and sewer network	32,855,092	7,038,194	(105,083)	39,788,203
Total capital assets being depreciated	33,172,913	7,135,860	(141,009)	40,167,764
Less accumulated depreciation for:				
Equipment and vehicles	152,610	43,738	(35,926)	160,422
Infrastructure, water and sewer network	5,204,511	747,517	(24,632)	5,927,396
Total accumulated depreciation	5,357,121	791,255	(60,558)	6,087,818
Total capital assets being depreciated, net	27,815,792	6,344,605	(80,451)	34,079,946
Business type activities capital assets, net	\$ 35,882,708	7,483,699	(6,476,443)	36,889,964

Depreciation expense was charged to the following functions:

Governmental activities:	
Public safety	\$ 141,229
Public works	1,649,654
Culture and recreation	200,440
Community and economic development	7,289
General government	<u>30,517</u>
Total depreciation expense - governmental activities	<u>\$ 2,029,129</u>
Business type activities:	
Water	\$ 327,683
Sewer	<u>463,572</u>
Total depreciation expense - business type activities	<u>\$ 791,255</u>

(4) Changes in Long-Term Liabilities

A summary of changes in long-term liabilities for the year ended June 30, 2007 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Governmental activities:					
General obligation bonds/notes	\$ 32,285,700	15,440,494	6,583,071	41,143,123	(1) 3,120,100
Compensated absences	260,593	410,739	361,779	309,553	249,163
Total	<u>\$ 32,546,293</u>	<u>15,851,233</u>	<u>6,944,850</u>	<u>41,452,676</u>	<u>3,369,263</u>

(1) Bonds were sold at a premium; unamortized premium at June 30, 2007 totaled \$207,523.

	Balance Beginning of Year	Increases	Decreases	Balance End of Year	Due Within One Year
Business type activities:					
General obligation bonds/notes	\$ 2,494,300	510,000	239,900	2,764,400	249,900
Revenue bonds/notes	10,232,351	1,829,746	574,000	11,488,097	(2) 607,000
Compensated absences	15,788	29,046	30,410	14,424	13,490
Total	<u>\$ 12,742,439</u>	<u>2,368,792</u>	<u>844,310</u>	<u>14,266,921</u>	<u>870,390</u>

(2) Bonds were sold at a discount; unamortized discount at June 30, 2007 totaled \$60,903.

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 \$41,143,123 as of June 30, 2007. The portion of unmatured general obligation bonds expected to be repaid from business type activities and accounted for in the Enterprise Funds totaled \$2,764,400 at June 30, 2007. In compliance with statutory requirements, funds pledged and available in the Enterprise Funds to service general obligation bonds are recorded as reimbursements to the Debt Service Fund in the City's accounting system.

Thirteen issues of unmatured general obligation bonds/notes payable from the Debt Service Fund bear interest at rates ranging from 2.00% to 6.35% and mature in varying annual amounts ranging from \$35,000 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, 2007 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
General obligation bonds/notes:						
Essential corporate purpose Refunding	Aug 1, 1998	5.90-6.35%	June 1, 2008	35,000-50,000	\$ 340,000	\$ 50,000
Essential corporate purpose Refunding	Dec 1, 1998	4.10-4.35	June 1, 2012	65,100-93,000	760,300	390,600
Essential corporate purpose Refunding	Feb 1, 1999	4.00-4.50	June 1, 2014	65,000-160,000	1,785,000	985,000
Essential corporate purpose Refunding	Oct 1, 1999	4.80-5.20	June 1, 2015	85,000-170,000	1,800,000	1,125,000
General and essential corporate purpose	Apr 15, 2000	4.75-5.35	June 1, 2015	465,000-905,000	9,155,000	6,010,000
Essential corporate purpose Refunding	Mar 1, 2001	3.65-4.80	June 1, 2016	175,000-320,000	3,360,000	2,380,000
Essential corporate purpose Refunding	Dec 1, 2001	3.00-4.40	June 1, 2016	115,000-190,000	2,060,000	1,450,000
Essential corporate purpose Refunding	Oct 1, 2002	2.00-3.95	June 1, 2017	265,000-430,000	4,655,000	3,550,000
Essential corporate purpose and refunding notes	May 15, 2004	2.00-4.00	June 1, 2014	225,000-680,000	3,245,000	1,715,000
Essential corporate purpose Refunding	Jun 1, 2005	3.75-4.00	June 1, 2021	465,000-775,000	8,995,000	8,530,000
Essential corporate purpose Refunding	Oct 1, 2006	3.60-3.70	June 1, 2013	365,000-605,000	3,625,000	3,155,000
Essential corporate purpose Refunding	Oct 1, 2006	3.70-3.95	June 1, 2022	135,000-505,000	5,700,000	5,700,000
Essential corporate purpose Refunding	Jan 1, 2007	4.00-5.00	June 1, 2015	155,000-1,080,000	5,895,000	5,895,000
Total governmental activities						<u>\$ 40,935,600</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
2008	\$ 3,120,100	1,705,639	4,825,739
2009	3,395,100	1,582,895	4,977,995
2010	4,222,500	1,446,304	5,668,804
2011	4,408,000	1,275,893	5,683,893
2012	4,609,900	1,096,231	5,706,131
2013-2017	15,895,000	2,763,807	18,658,807
2018-2022	5,285,000	582,735	5,867,735
Total	<u>\$ 40,935,600</u>	<u>10,453,504</u>	<u>51,389,104</u>

General Obligation Refunding Notes

On January 1, 2007 the City issued \$3,625,000 of general obligation refunding notes. These notes were to refund the City's essential corporate purpose 1996 and 1998 bonds. The general obligation bonds were called for redemption as of June 1, 2007 and have all been retired as of June 30, 2007.

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 are for a crossover refunding of general obligation bonds series 1999B dated October 1, 1999 and series 2000A dated April 15, 2000.

The City entered into an escrow agreement whereby the proceeds from the general obligation refunding notes were converted into U.S. Treasury Securities. These securities, along with additional cash, were placed in an escrow account for the express purpose of paying the \$1,260,000 and \$4,740,000 principal on the general obligation bonds, series 1999B and 2000A, when due at the crossover dates of June 1, 2008 and June 1, 2009, respectively. In addition, funds in the escrow account will be used to pay interest on the general obligation refunding notes due before the crossover dates. 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.

The City, in effect, reduced its aggregate debt service payments by various amounts over the next eight years and obtained an economic gain (difference between the present values of the old and new debt service payments) of approximately \$196,200.

Business Type Activities:

Six issues of unmatured general obligation bonds totaling \$2,764,400 and payable from the Enterprise Funds are outstanding at June 30, 2007. These bonds bear interest at rates ranging from 1.90% to 5.20% and mature in varying annual amounts ranging from \$20,000 to \$84,000, with final maturities due in the year ending June 30, 2022.

Five issues of unmatured revenue bonds/notes totaling \$11,549,000 are outstanding at June 30, 2007. These bonds/notes bear interest at rates ranging from 1.50% to 5.40% and mature in varying annual amounts ranging from \$50,000 to \$470,000, with final maturities due in the year ending June 30, 2026.

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

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

During the year ended June 30, 2007, the City was in compliance with the revenue bond/note provisions.

Details of general obligation bonds and revenue bonds/notes payable from Enterprise Funds at June 30, 2007 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2007
General obligation bonds/notes:						
Refunding	Dec 1, 1998	4.10-4.35%	June 1, 2012	39,900-55,100	\$ 309,700	\$ 239,400
Essential corporate purpose	Oct 1, 1999	4.80-5.20	June 1, 2015	20,000-40,000	450,000	280,000
Refunding notes	Oct 1, 2003	1.90-3.90	June 1, 2013	20,000-30,000	265,000	170,000
Essential corporate purpose and refunding bonds	May 15, 2004	2.00-4.00	June 1, 2014	25,000-30,000	900,000	715,000
Essential corporate purpose	Aug 1, 2005	3.05-4.10	June 1, 2020	50,000-84,000	900,000	850,000
Essential corporate purpose	Oct 1, 2006	3.70-3.95	June 1, 2022	10,000-45,000	510,000	510,000
						2,764,400
Revenue bonds/notes:						
Water	Jun 1, 1997	4.50-5.40	June 1, 2013	55,000-120,000	1,245,000	625,000
Water	Sep 1, 2001	4.30-4.90	June 1, 2021	50,000-470,000	4,580,000	4,210,000
Sewer	Oct 1, 2003	1.50-3.65	June 1, 2013	100,000-135,000	1,170,000	755,000
Sewer	May 17, 2005	3.00	June 1, 2025	132,000-231,000	3,535,000	3,268,000
Sewer	May 1, 2006	3.00	June 1, 2026	104,000-183,000	2,795,000	2,691,000
						11,549,000
Total business type activities						\$ 14,313,400

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
2008	\$ 249,900	106,964	356,864	500,000	351,753	851,753
2009	269,900	98,418	368,318	519,000	332,554	851,554
2010	287,500	88,274	375,774	543,000	312,438	855,438
2011	312,000	77,305	389,305	557,000	291,343	848,343
2012	315,100	65,212	380,312	582,000	269,329	851,329
2013-2017	880,000	175,024	1,055,024	2,740,000	1,007,393	3,747,393
2018-2022	450,000	45,227	495,227	2,745,000	410,120	3,155,120
2023-2027	-	-	-	672,000	40,740	712,740
Total	\$ 2,764,400	656,424	3,420,824	8,858,000	3,015,670	11,873,670

Sewer Revenue Capital Loan Note

On May 5, 2006, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources and Wells Fargo Bank, N.A. for the issuance of \$2,800,000 of sewer revenue capital loan notes with interest at 3.00% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The notes were issued pursuant to the provisions of Chapter 384.24A of the Code of Iowa for the purpose of paying the costs of acquisition, construction, reconstruction, extending, remodeling, improving, repairing and equipping the municipal sewer system. The City receives drawdowns from the Trustee for costs as they are incurred. At June 30, 2007, the City had drawn \$2,795,000 of the \$2,800,000 authorized and had repaid \$104,000 in principal.

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

(5) Joint Venture and Commitments

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

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

The City of Johnston retains an ongoing financial responsibility to the WRA since it is obligated in some manner for the debts of the joint venture through the annual allocation. Although the debt of the WRA is to be paid solely and only from WRA revenues, the participating communities in the joint venture cannot withdraw from the joint venture while any of the bonds issued during the time the communities were a participating community are still outstanding. The WRA Sewer Revenue Bonds Series 2004A, 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 \$16,685,000 as of June 30, 2007. The City of Johnston has a commitment for approximately \$230,643, or 1.38%, 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, 2007, the Series 2004B bonds had a balance of \$65,780,000 and the City of Johnston's estimated future allocation based on the WRA flows is currently \$871,761, or 1.33%. As of June 30, 2007, 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 \$429,567, or 1.13%. The State Revolving Loans are to be paid by the participating communities based on the existing allocations under the prior I.C.A. agreement. As of June 30, 2007, the WRA had \$11,824,000 in outstanding State Revolving Loans, of which \$81,291 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) Due From and Due to Other Funds

The detail of interfund receivables and payables at June 30, 2007 is as follows:

Receivable Fund	Payable Fund	Amount
Enterprise: Water	Capital projects	<u>\$240,929</u>

This balance results from a transfer to finance future project costs.

(7) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2007 is as follows:

Transfer to	Transfer from	Amount
General	Capital Projects	<u>\$ 21,292</u>
Special Revenue:		
Urban Renewal Tax		
Increment Financing	Capital Projects	97,008
Senior Citizens	General	2,145
Community Improvement	General	15,000
		<u>114,153</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment Financing	1,144,610
	Capital Projects	101,771
		<u>1,246,381</u>
Capital Projects	General	161,250
	Special Revenue:	
	East Park District	40,000
	Northwest Park District	45,000
		<u>246,250</u>
Total		<u>\$ 1,628,076</u>

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

(8) 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 \$7,729,476.

The City has rebated a total of \$3,344,173 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2007 was \$4,385,303.

(9) 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, 2007, the City had loaned \$472,982 under the agreements and forgiven \$369,290 of the loans, leaving a balance of \$103,692.

(10) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2007, 2006 and 2005 were \$269,413, \$234,594 and \$182,350, respectively, equal to the required contributions for each year.

(11) Industrial Development Revenue Bonds

The City has issued a total of \$9,500,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$3,302,055 is outstanding at June 30, 2007. The bonds and related interest are payable solely from the revenues received by tenants of the properties and the bond principal and interest do not constitute liabilities of the City.

(12) Risk Management

The City 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 Employee Benefit Services from the Internal Service, Health Deductible Claims Fund. The City made contributions of \$69,156 to the fund for the year ended June 30, 2007.

Amounts payable from the Internal Service, Health Deductible Claims Fund at June 30, 2007 total \$3,916, 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, 2006	\$ 1,518
Incurred claims	29,874
Payments on claims during the fiscal year	<u>27,476</u>
Unpaid claims at June 30, 2007	<u>\$ 3,916</u>

(13) Contractual Commitments

The City has entered into construction contracts totaling \$20,973,161 for street and sewer construction projects. As of June 30, 2007, costs of \$13,100,973 have been incurred on the projects. The balance on the contracts of \$7,872,188 will be paid as work on the projects progresses.

(14) Pending Litigation

The City is a defendant in a lawsuit with a developer. The developer paid the City \$154,945 for the cost of future street improvements but is contesting the agreement with the City as unconstitutional and unenforceable. The City is holding the funds in the Capital Projects Fund. The revenue has not been recognized since the payment was made under protest and the matter is currently under litigation. A liability is reflected in the financial statements as trusts payable. The case is scheduled for trial in May 2008. The probability of a favorable outcome is deemed to be 50%. The amount of loss, if any, would likely be the return of the developer's payment for the improvements.

(15) Subsequent Events

In July 2007, the City paid \$650,000 to Polk County for the City's share of the NW 54th and NW 72nd project.

In August 2007, the City approved a \$948,892 contract for NW 86th St. and Valley Parkway project.

In August 2007, the City approved the sale of \$4,635,000 of general obligation bonds to finance street, water, storm sewer and park improvements, street lighting and fire equipment.

In November 2007, the City entered into a development agreement with Deere Credit Services, Inc. for an expansion to their facility. Under the agreement, the City will provide rebates of 80% of paid property taxes over a five year period up to the requested amount of \$4,540,676.

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, 2007

	Governmental Funds Actual	Enterprise Funds Actual	Total Actual
Receipts:			
Property tax	\$ 8,623,561	-	8,623,561
Tax increment financing	1,498,615	-	1,498,615
Other city tax	682,741	-	682,741
Licenses and permits	461,167	-	461,167
Use of money and property	783,061	348,631	1,131,692
Intergovernmental	3,679,247	83,500	3,762,747
Charges for service	457,881	4,829,235	5,287,116
Special assessments	200,650	478,643	679,293
Miscellaneous	498,241	307,836	806,077
Total receipts	16,885,164	6,047,845	22,933,009
Disbursements:			
Public safety	2,435,187	-	2,435,187
Public works	1,813,977	-	1,813,977
Health and social services	19,298	-	19,298
Culture and recreation	1,888,221	-	1,888,221
Community and economic development	820,008	-	820,008
General government	1,262,420	-	1,262,420
Debt service	5,247,869	-	5,247,869
Capital projects	7,689,632	-	7,689,632
Business type activities	-	5,991,805	5,991,805
Total disbursements	21,176,612	5,991,805	27,168,417
Excess (deficiency) of receipts over (under) disbursements	(4,291,448)	56,040	(4,235,408)
Other financing sources, net	12,577,544	1,523,259	14,100,803
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	8,286,096	1,579,299	9,865,395
Balances beginning of year	10,158,098	6,385,451	16,543,549
Balances end of year	\$ 18,444,194	7,964,750	26,408,944

See accompanying independent auditor's report.

Less Funds not Required to be Budgeted	Total Net	Budgeted Amounts		Final to Actual Variance
		Original	Final	
-	8,623,561	8,599,709	8,599,709	23,852
-	1,498,615	1,497,789	1,497,789	826
-	682,741	620,020	680,020	2,721
-	461,167	611,975	442,982	18,185
10,120	1,121,572	225,086	991,811	129,761
-	3,762,747	5,049,057	3,574,301	188,446
-	5,287,116	4,682,192	5,123,719	163,397
-	679,293	50,791	226,438	452,855
23,003	783,074	739,464	1,333,785	(550,711)
33,123	22,899,886	22,076,083	22,470,554	429,332
-	2,435,187	2,453,778	2,555,371	120,184
-	1,813,977	2,286,973	2,330,034	516,057
-	19,298	51,708	32,030	12,732
27,721	1,860,500	1,834,260	1,941,599	81,099
-	820,008	789,631	956,497	136,489
-	1,262,420	1,218,472	1,365,133	102,713
-	5,247,869	5,454,943	8,727,137	3,479,268
-	7,689,632	10,528,550	9,653,348	1,963,716
-	5,991,805	4,536,660	6,569,666	577,861
27,721	27,140,696	29,154,975	34,130,815	6,990,119
5,402	(4,240,810)	(7,078,892)	(11,660,261)	7,419,451
-	14,100,803	5,973,000	11,604,651	2,496,152
5,402	9,859,993	(1,105,892)	(55,610)	9,915,603
231,276	16,312,273	12,525,213	16,312,274	(1)
236,678	26,172,266	11,419,321	16,256,664	9,915,602

City of Johnston
 Budget to GAAP Reconciliation
 Required Supplementary Information
 Year ended June 30, 2007

	Governmental Funds		
	Cash	Accrual	Modified
	Basis	Adjustments	Basis
Revenues	\$ 16,885,164	1,099,628	17,984,792
Expenditures	21,176,612	379,670	21,556,282
Net	(4,291,448)	719,958	(3,571,490)
Other financing sources (uses)	12,577,544	(811,425)	11,766,119
Beginning fund balances	10,158,098	(762,824)	9,395,274
Ending fund balances	\$ 18,444,194	(854,291)	17,589,903

	Proprietary Funds		
	Enterprise		
	Cash	Accrual	Accrual
	Basis	Adjustments	Basis
Revenues	\$ 6,047,845	2,022,051	8,069,896
Expenses	5,991,805	(1,406,986)	4,584,819
Net	56,040	3,429,037	3,485,077
Other financing sources (uses)	1,523,259	(1,523,259)	-
Beginning net assets	6,385,451	23,581,016	29,966,467
Ending net assets	\$ 7,964,750	25,486,794	33,451,544

See accompanying independent auditor's report.

City of Johnston

Notes to Required Supplementary Information – Budgetary Reporting

Year ended June 30, 2007

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 \$4,975,840. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2007, disbursements did not exceed the amounts budgeted.

City of Johnston

Other Supplementary Information

City of Johnston
 Combining Balance Sheet
 Nonmajor Governmental Funds

June 30, 2007

	Road Use Tax	Police	Law Enforcement Block Grant	East Park District	Northridge Park District
Assets					
Cash and pooled investments:					
City officials	\$ 794,801	52,448	2,412	28,352	146,648
Library Foundation	-	-	-	-	-
Receivables:					
Accounts	280	-	-	-	-
Accrued interest	-	213	6	115	599
Due from other governments	94,012	-	-	-	-
Total assets	\$ 889,093	52,661	2,418	28,467	147,247
Liabilities and Fund Equity					
Liabilities:					
Accounts payable	\$ 29,881	-	-	-	-
Salaries and benefits payable	2,156	-	-	-	-
Contracts payable	4,683	-	-	-	-
Due to other governments	307	-	-	-	-
Deferred revenue	280	-	-	-	-
Total liabilities	37,307	-	-	-	-
Fund equity:					
Fund balances:					
Unreserved, undesignated	851,786	52,661	2,418	28,467	147,247
Total liabilities and fund equity	\$ 889,093	52,661	2,418	28,467	147,247

See accompanying independent auditor's report.

Special Revenue						
Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Library Foundation	Total
30,773	26,631	3,432	88,518	13,048	-	1,187,063
-	-	-	-	-	236,678	236,678
-	-	-	1,855	135	-	2,270
125	109	12	362	51	-	1,592
-	-	-	-	-	-	94,012
30,898	26,740	3,444	90,735	13,234	236,678	1,521,615
-	-	761	-	-	-	30,642
-	-	-	-	879	-	3,035
-	-	-	-	-	-	4,683
-	-	-	-	-	-	307
-	-	-	-	-	-	280
-	-	761	-	879	-	38,947
30,898	26,740	2,683	90,735	12,355	236,678	1,482,668
30,898	26,740	3,444	90,735	13,234	236,678	1,521,615

City of Johnston

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

Year ended June 30, 2007

	Road Use Tax	Police	Law Enforcement Block Grant	East Park District	Northridge Park District
Revenues:					
Use of money and property	\$ -	2,648	61	2,059	6,430
Intergovernmental	1,149,713	9,237	625	-	-
Charges for services	-	11,298	-	-	-
Miscellaneous	-	-	213	-	23,444
Total revenues	1,149,713	23,183	899	2,059	29,874
Expenditures:					
Operating:					
Public safety	-	17,257	-	-	-
Public works	743,153	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	-
Total expenditures	743,153	17,257	-	-	-
Excess (deficiency) of revenues over (under) expenditures	406,560	5,926	899	2,059	29,874
Other financing sources (uses):					
Operating transfers in	-	-	-	-	-
Operating transfers out	-	-	-	(40,000)	-
Total other financing sources (uses)	-	-	-	(40,000)	-
Excess (deficiency) of revenues and other financing sources over (under) expenditures and other financing uses	406,560	5,926	899	(37,941)	29,874
Fund balances beginning of year	445,226	46,735	1,519	66,408	117,373
Fund balances end of year	\$ 851,786	52,661	2,418	28,467	147,247

See accompanying independent auditor's report.

Special Revenue						
Northwest Park District	Southwest Park District	Senior Citizens	Library	Community Improvement	Library Foundation	Total
1,955	908	155	14,544	3,721	10,120	42,601
-	-	-	-	-	-	1,159,575
-	-	-	-	-	-	11,298
19,992	12,099	2,571	-	6,500	23,003	87,822
21,947	13,007	2,726	14,544	10,221	33,123	1,301,296
-	-	-	-	-	-	17,257
-	-	-	-	-	-	743,153
-	-	5,324	-	-	27,721	33,045
-	-	-	-	24,462	-	24,462
-	-	5,324	-	24,462	27,721	817,917
21,947	13,007	(2,598)	14,544	(14,241)	5,402	483,379
-	-	2,145	-	15,000	-	17,145
(45,000)	-	-	-	-	-	(85,000)
(45,000)	-	2,145	-	15,000	-	(67,855)
(23,053)	13,007	(453)	14,544	759	5,402	415,524
53,951	13,733	3,136	76,191	11,596	231,276	1,067,144
30,898	26,740	2,683	90,735	12,355	236,678	1,482,668

Schedule 3

City of Johnston
Combining Schedule of Net Assets
Internal Service Funds

June 30, 2007

	Flexible Spending	Health Deductible Claims	Total
Assets			
Current assets:			
Cash and pooled investments	\$ 666	163,794	164,460
Liabilities			
Current liabilities:			
Accounts payable	-	3,916	3,916
Net Assets			
Unrestricted	\$ 666	159,878	160,544

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, 2007

	Flexible Spending	Health Deductible Claims	Total
Operating revenues:			
Miscellaneous:			
Contributions from operating funds	\$ -	69,156	69,156
Contributions from employees	14,006	-	14,006
Total operating revenues	<u>14,006</u>	<u>69,156</u>	<u>83,162</u>
Operating expenses:			
Governmental activities:			
Public safety	1,315	8,029	9,344
Public works	2,089	3,812	5,901
Culture and recreation	1,606	5,596	7,202
Community and economic development	568	3,215	3,783
General government	10,204	6,824	17,028
Total operating expenses	<u>15,782</u>	<u>27,476</u>	<u>43,258</u>
Operating income (loss)	(1,776)	41,680	39,904
Net assets beginning of year	<u>2,442</u>	<u>118,198</u>	<u>120,640</u>
Net assets end of year	<u>\$ 666</u>	<u>159,878</u>	<u>160,544</u>

See accompanying independent auditor's report.

Schedule 5

City of Johnston
Combining Schedule of Cash Flows
Internal Service Funds

Year ended June 30, 2007

	Flexible Spending	Health Deductible Claims	Total
Cash flows from operating activities:			
Cash received from employees	\$ 14,006	-	14,006
Cash received from operating funds reimbursements	-	69,156	69,156
Cash paid to suppliers	(15,782)	(25,078)	(40,860)
Net cash provided by (used for) operating activities and net increase (decrease) in cash and cash equivalents	(1,776)	44,078	42,302
Cash and cash equivalents beginning of year	2,442	119,716	122,158
Cash and cash equivalents end of year	\$ 666	163,794	164,460
Reconciliation of operating income (loss) to net cash provided by (used for) operating activities:			
Operating income (loss)	\$ (1,776)	41,680	39,904
Adjustment to reconcile operating income (loss) to net cash provided by (used for) operating activities: (Decrease) in accounts payable	-	2,398	2,398
Net cash provided by (used for) operating activities	\$ (1,776)	44,078	42,302

See accompanying independent auditor's report.

City of Johnston

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

For the Last Five Years

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

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expendi- tures
Direct:			
U.S. Department of Justice:			
Bulletproof Vest Partnership Program	16.607		\$ 2,787
Indirect:			
U.S. Department of Transportation:			
Iowa Department of Transportation:			
Highway Planning and Construction	20.205	STP-U-3827(605)--70-77	3,461,958
Iowa Department of Public Safety:			
State and Community Highway Safety	20.600	PAP 05-04, Task 22	2,686
State and Community Highway Safety	20.600	PAP 06-04, Task 22	957
			3,643
U.S. Environmental Protection Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for Clean Water			
State Revolving Funds	66.458	CS192234 01,02	681,877
U.S. Department of Public Defense:			
Iowa Homeland Security and Emergency			
Management Division:			
Disaster Grants - Public Assistance			
(Presidentially Declared Disasters)	97.036	FEMA DR-1688	38,750
Total indirect			4,186,228
Total			\$ 4,189,015

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, 2007, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated January 9, 2008. 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 a deficiency in internal control over financial reporting that we consider to be a significant deficiency and another 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-07 is a material weakness.

Compliance and Other Matters

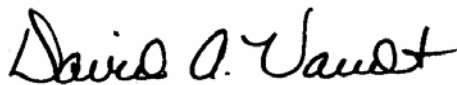
As part of obtaining reasonable assurance about whether the City of Johnston's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material 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.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2007 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.

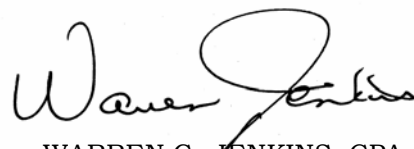
The City of Johnston's responses to findings identified in our audit are described in the accompanying Schedule of Findings and Questioned Costs. While we have expressed our conclusions on the City's responses, we did not audit the City of Johnston's responses and, accordingly, we express no opinion 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 9, 2008

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

City of Johnston



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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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, 2007. 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, 2007.

Internal Control over Compliance

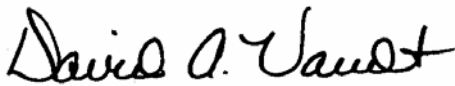
The management of the City of Johnston is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grant agreements applicable to federal programs. In planning and performing our audit, we considered the City of Johnston's 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 9, 2008

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2007

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, 2007

Part II: Findings Related to the Financial Statements:

SIGNIFICANT DEFICIENCIES:

II-A-07 Financial Reporting – During the audit, we identified material amounts of receivables, payables and capital asset additions 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 receivables, payables and capital asset additions are identified and included in the City's financial statements.

Response – Implementation of the accounts receivables module in the new financial software, continued discussions with engineering firms regarding the timing of the project work completed in June and the invoicing of such will enable more accurate recording. A continued review of expenditure reports to record capital asset additions will occur. Additionally, a GASB module was purchased for the new software and will be available for future year's information.

Conclusion – Response accepted.

II-B-07 Building Permits – One individual has control over processing approved building permits, collecting and receipting building permit fees.

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

Response – New procedures were established on July 1, 2007 with the new accounting software. The procedure will continue to be monitored to assure segregation of duties as practical.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

Part III: Findings and Questioned Costs for Federal Awards:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

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, 2007

Part IV: Other Findings Related to Required Statutory Reporting:

- IV-A-07 Certified Budget – Disbursements during the year ended June 30, 2007 did not exceed the amounts budgeted.
- IV-B-07 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-07 Travel Expense – No expenditures of City money for travel expenses of spouses of City officials or employees were noted.
- IV-D-07 Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
John Temple, Mayor Pro tem, brother is co-owner of Nuckolls Concrete Services, Inc.	Street construction	\$ 5,836,965
Mary Davis, Council Member, husband is the owner of Irwin’s Bike and Sport	Miscellaneous	\$ 1,322

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.

- IV-E-07 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-07 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-G-07 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-07 Water and Sewer Revenue Bonds/Notes – No instances of non-compliance with the water and sewer revenue bond/note provisions were noted.

City of Johnston

Schedule of Findings and Questioned Costs

Year ended June 30, 2007

IV-I-07 Other Information Required by Bond Resolution

Insurance – The following insurance policies were in force at June 30, 2007:

Insurer	Description	Amount	Expiration Date
EMC Insurance Companies	Automobile coverage:		
	Liability	1,000,000	4/1/08
	Uninsured motorists	100,000	4/1/08
	Underinsured motorists	100,000	4/1/08
	Comprehensive/collision	Lesser of cash value or cost of repair	4/1/08
	Auto medical payments	5,000	4/1/08
EMC Insurance Companies	Blanket: Building and personal property	20,593,894	4/1/08
EMC Insurance Companies	General liability coverage:		
	General aggregate	2,000,000	4/1/08
	Products aggregate	2,000,000	4/1/08
	Personal/advertising injury	1,000,000	4/1/08
	Each occurrence	1,000,000	4/1/08
	Damage to rented property	100,000	4/1/08
	Medical expense	5,000	4/1/08
EMC Insurance Companies	Commercial crime		
	Employee Theft - Per Employee	600,000	4/1/08
	Forgery or Alteration	10,000	4/1/08
	Inside The Premises	15,000	4/1/08
	Outside the Premises	15,000	4/1/08
	Computer Fraud	600,000	4/1/08
	Funds Transfer Fraud	600,000	4/1/08
EMC Insurance Companies	Inland marine:		
	Contractors equipment	1,047,459	4/1/08
	Rented contacted equipment	50,000	4/1/08
	Miscellaneous property	454,713	4/1/08
	Data processing - equipment	102,929	4/1/08
EMC Insurance Companies	Commercial umbrella:		
	Each occurrence	10,000,000	4/1/08
	General aggregate	10,000,000	4/1/08
	Retained limit	10,000	4/1/08
EMC Insurance Companies	Workers' compensation:		
	Bodily injury by accident	500,000	4/1/08
	Bodily injury by disease each employee	500,000	4/1/08
	Bodily injury by disease policy limit	500,000	4/1/08
EMC Insurance Companies	Linebacker:		
	Each loss	1,000,000	4/1/08
	Aggregate	1,000,000	4/1/08

City of Johnston
Schedule of Findings and Questioned Costs
Year ended June 30, 2007

Statistical Information

Description	Amount
Sewer customers served at June 30, 2007	4,384

Sewer rates in effect at June 30, 2007:

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:

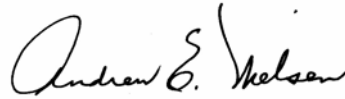
Biochemical oxygen demand	\$0.35 per pound
Suspended solids	\$0.22 per pound

City of Johnston

Staff

This audit was performed by:

Donna F. Kruger, CPA, Manager
Lesley R. Geary, CPA, Senior Auditor II
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Deputy Auditor of State