

City of Johnston, Iowa

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

June 30, 2014

TABLE OF CONTENTS

			<u>Page</u>
OFFICIALS			3
INDEPENDENT AUDITOR'S REPORT			4-5
MANAGEMENT'S DISCUSSION AND ANALYSIS			6-13
BASIC FINANCIAL STATEMENTS			14
Government-wide financial statements			
Statement of net position			15
Statement of activities			16-17
Governmental fund financial statements			
Balance sheet			18
Reconciliation of the balance sheet—governmental funds to the statement of net position			19
Statement of revenues, expenditures and changes in fund balances			20
Reconciliation of the statement of revenues, expenditures and changes in fund balances—governmental funds to the statement of activities			21
Proprietary fund financial statements			
Statement of net position			22
Statement of revenues, expenses and changes in fund net position			23
Statement of cash flows			24-25
Notes to financial statements			26-45
REQUIRED SUPPLEMENTARY INFORMATION			46
Budgetary comparison schedule of receipts, disbursements and changes in balances—budget and actual (cash basis)—governmental funds and proprietary funds			47-48
Budget to GAAP reconciliation			49
Note to required supplementary information—budgetary reporting			50
Schedule of funding progress for the retiree health plan			51
SUPPLEMENTARY INFORMATION			52
		<u>Schedule</u>	
Nonmajor governmental funds			
Combining balance sheet	1		53-54
Combining schedule of revenues, expenditures and changes in fund balances	2		55-56
Internal service funds			
Combining schedule of net position	3		57
Combining schedule of revenues, expenses and changes in fund net position	4		58
Combining schedule of cash flows	5		59
Schedule of revenues by source and expenditures by function—all governmental funds	6		60-61
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			62-63
SCHEDULE OF FINDINGS			64-68

**City of Johnston, Iowa
OFFICIALS**

Term expires

MAYOR AND MEMBERS OF CITY COUNCIL (Before January 2014)

Paula Dierenfeld, Mayor	January 2014
Gerd Clabaugh, Mayor Pro tem	January 2014
Matt Brown, Council Member	January 2016
Tom Cope, Council Member	January 2016
David Lindeman, Council Member	January 2014
John Temple, Council Member	January 2016

ADMINISTRATOR

James P. Sanders	Indefinite
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FINANCE DIRECTOR

Teresa M. Rotschafer	Indefinite
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CLERK

Cyndee Rhames	Indefinite
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ATTORNEY

Timothy Pearson	Indefinite
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Term expires

MAYOR AND MEMBERS OF CITY COUNCIL (After January 2014)

Paula Dierenfeld, Mayor	January 2016
Gerd Clabaugh, Mayor Pro tem	January 2018
Matt Brown, Council Member	January 2016
Tom Cope, Council Member	January 2016
David Lindeman, Council Member	January 2018
John Temple, Council Member	January 2016

ADMINISTRATOR

James P. Sanders	Indefinite
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FINANCE DIRECTOR

Teresa M. Rotschafer	Indefinite
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CLERK

Cyndee Rhames	Indefinite
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ATTORNEY

Timothy Pearson	Indefinite
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INDEPENDENT AUDITOR'S REPORT

To the Honorable Mayor and
Members of the City Council
Johnston, Iowa

Report on the Financial Statements

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 (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America 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 from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

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, Iowa, as of June 30, 2014, and the respective changes in financial position and, where applicable, cash flows thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Change in Accounting Principle

As discussed in Note 2 to the financial statements, in 2014 the City adopted new accounting guidance, GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*. Our opinion is not modified with respect to this matter.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis, budgetary comparison information, and the schedule of funding progress for the retiree health plan on pages 6-13 and 47-51 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Johnston, Iowa's basic financial statements. We previously audited, in accordance with the standards referred to in the third paragraph of this report, the financial statements for the five years ended June 30, 2013 (none of which are presented herein) and expressed unmodified opinions on those financial statements. The basic financial statements for the four years ended June 30, 2008 (none of which are presented herein) were audited by other auditors whose report dated January 8, 2009 stated they expressed unmodified opinions on those financial statements. The combining and individual nonmajor fund financial statements and schedule of revenues by source and expenditures by function are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The combining and individual nonmajor fund financial statements and schedule of revenues by source and expenditures by function are the responsibility of management and were derived from and relate directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the combining and individual nonmajor fund financial statements and schedule of revenues by source and expenditures by function are fairly stated, in all material respects, in relation to the basic financial statements as a whole.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated November 28, 2014 on our consideration of the City of Johnston, Iowa's internal control over financial reporting and on 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 internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City of Johnston, Iowa's internal control over financial reporting and compliance.



DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 28, 2014

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, 2014. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2014 FINANCIAL HIGHLIGHTS

- Revenues of the City's governmental funds decreased approximately \$1,960,000 or approximately 9%, from fiscal 2013 to fiscal 2014. Property tax increased approximately \$586,000 along with intergovernmental decreasing approximately \$2,700,000 and tax increment financing decreasing approximately \$120,000.
- Governmental fund expenditures increased approximately \$1,817,000 or approximately 6%, in fiscal 2014 over fiscal 2013. Community & economic development, health & social services, culture & recreation, and capital projects expenditures increased approximately \$1,256,000, \$28,000, \$9,000 and \$2,116,000, respectively. Public safety, public works, general government and debt service expenditures decreased approximately \$126,000, \$567,000, \$6,000 and \$893,000 respectively.
- The City's net position increased approximately 3.5%, or \$4,269,000 from June 30, 2013 to June 30, 2014. Of this amount, the net position of the governmental activities increased \$5,066,000 while net position of the business type activities decreased \$797,000.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statements consist of a Statement of Net Position 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, as well as presenting the Schedule of Funding Progress for the Retiree Health Plan.

Supplementary Information provides detailed information about the nonmajor governmental and proprietary funds, and schedule of revenues by source and expenditures by function.

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 Position 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 Position presents all of the City's assets and liabilities, with the difference between the two reported as net position. Over time, increases or decreases in the City's net position 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 position changed during the most recent fiscal year. All changes in net position 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 Position and the Statement of Activities report two kinds of activities:

- Governmental activities include public safety, public works, health and social service, culture and recreation, community and economic development, general government, and debt service. Property tax and state and federal grants finance most of these activities.
- Business type activities include the waterworks, sanitary sewer, and storm water systems. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

(1) Governmental funds account for most of the City's basic services. These focus on how money flows into and out of those funds and the balances at year-end that are available for spending. Governmental funds include: 1) the General Fund, 2) the Special Revenue Funds, such as Urban Renewal Tax Increment Financing, 3) the Debt Service Fund and 4) the Capital Projects Fund. These funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting, which measures cash and all other financial assets that can readily be converted to cash. The governmental fund financial statements provide a detailed, short-term view of the City's general governmental operations and the basic services it provides. Governmental fund information helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the City's programs.

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

2) Proprietary funds account for the City's Enterprise Funds 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 Position 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; along with the Storm Water Fund considered a non-major fund. 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 position, a statement of revenues, expenses and changes in fund net position and a statement of cash flows.

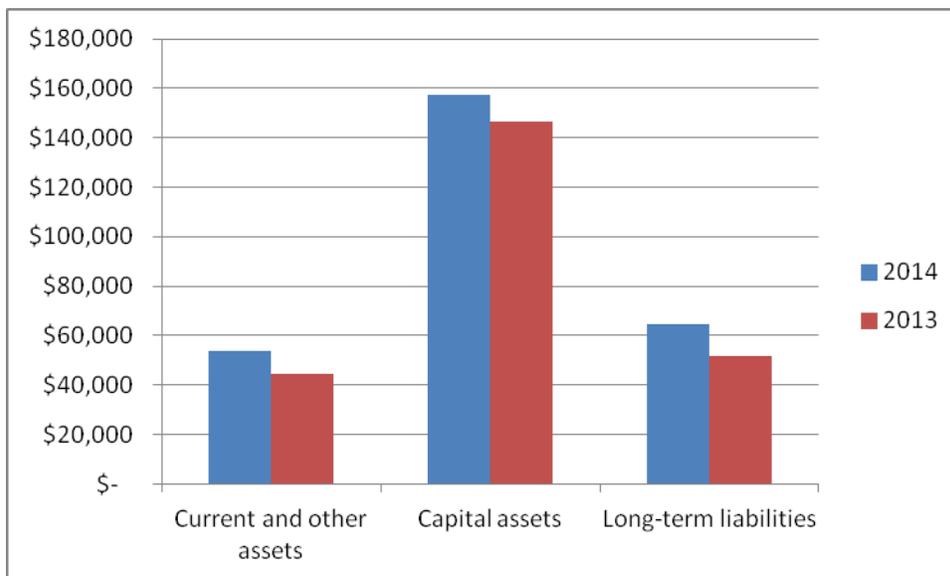
Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

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

	Condensed Statement of Net Position (Expressed in Thousands)						Percent Change June 30 2013-2014
	Governmental Activities		Business Type Activities		Total		
	June 30		June 30		June 30		
	2014	2013	2014	2013	2014	2013	
Current and other assets	\$45,345	\$36,847	\$8,587	\$7,750	\$53,932	\$44,597	20.9%
Capital assets	<u>112,876</u>	<u>102,992</u>	<u>44,425</u>	<u>43,420</u>	<u>157,301</u>	<u>146,412</u>	7.4%
Total assets	<u>158,221</u>	<u>139,839</u>	<u>53,012</u>	<u>51,170</u>	<u>211,233</u>	<u>191,009</u>	10.6%
Deferred outflows of resources	=	=	46	=	46	=	100.0%
Long-term liabilities	51,457	40,956	13,357	10,797	64,814	51,753	25.2%
Other liabilities	<u>3,544</u>	<u>18,199</u>	<u>1,031</u>	<u>865</u>	<u>4,575</u>	<u>19,064</u>	-76.0%
Total liabilities	<u>55,001</u>	<u>59,155</u>	<u>14,388</u>	<u>11,662</u>	<u>69,389</u>	<u>70,817</u>	-2.0%
Deferred inflows of resources	<u>17,558</u>	=	=	=	<u>17,558</u>	=	100.0%
Net position							
Net investment in capital assets	73,677	59,436	34,108	32,299	107,785	91,735	17.5%
Restricted	6,796	12,423	3,808	3,467	10,604	15,890	-33.3%
Unrestricted	<u>5,189</u>	<u>8,824</u>	<u>754</u>	<u>3,742</u>	<u>5,943</u>	<u>12,566</u>	-52.7%
Total net position	<u>\$85,662</u>	<u>\$80,683</u>	<u>\$38,670</u>	<u>\$39,508</u>	<u>\$124,332</u>	<u>\$120,191</u>	3.4%

The following chart presents a comparison of governmental activities assets and liabilities for fiscal 2014 and fiscal 2013:



Net position of governmental activities increased from fiscal 2013 approximately 6.2%, or \$5,066,000. Net position of business type activities decreased from fiscal 2013 approximately -2.1%, or \$(797,000). Total assets increased approximately \$20,224,000 or 10.6%, from fiscal 2013, primarily due to Merle Hay Road Redevelopment projects, including purchasing of additional land and buildings for redevelopment, cash and investments restricted for capital projects, and tax increment financing assets. Major projects continued such as the completion of the reconstruction of NW 62nd Avenue for the Pioneer expansion, NW Beaver Drive reconstruction, storm drainage projects, signalization projects, and the public safety buildings approved by voter

referendum. Total capital assets increased over fiscal 2013 approximately \$10,889,000, or 7.4%, primarily due to progress made on the NW 62nd Reconstruction for Pioneer expansion, Joint Public Safety Building, Fire Station #2 & Police Annex, NW Beaver Drive reconstruction and several storm drainage projects. In addition, the City added a significant amount of sewer and water mains through developer contributions. Long term liabilities increased 25.2% or approximately \$13,061,000 mostly related to debt added for various projects. Other liabilities decreased -76.0%, or approximately -\$14,489,000 from fiscal 2013.

The largest portion of the City's net position 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 position component increased over fiscal 2013 approximately \$16,050,000 or 17.5%. Restricted net position represent resources subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. Unrestricted net position, the part of net position that can be used to finance day-to-day operations without constraints established by debt covenants, legislation or other legal requirements, is approximately \$5,943,000 at the end of this year. Restricted net position decreased over fiscal 2013 approximately -\$5,286,000, or 33.3%, and unrestricted net position decreased from 2013 approximately \$6,623,000, or 52.7%. The decrease in restricted net position is primarily due to an increase in funds held for capital projects.

	Changes in Net Position (Expressed in Thousands)						
	Governmental Activities		Business Type Activities		Total		Percent Change June 30, 2013-2014
	June 30,		June 30,		June 30,		
	2014	2013	2014	2013	2014	2013	
Revenues							
Program revenues							
Charges for service	\$1,971	\$1,824	\$7,753	\$7,031	\$9,724	\$8,855	9.8%
Operating grants, contributions and restricted interest	1,732	1,702	-	-	1,732	1,702	1.8%
Capital grants, contributions and restricted interest	37	2,819	164	54	201	2,873	-93.0%
General revenues							
Property and other city tax levied for							
General purposes	8,302	7,943	-	-	8,302	7,943	4.5%
Debt service	4,285	4,067	-	-	4,285	4,067	5.4%
Hotel/motel tax	277	261	-	-	277	261	6.1%
Tax increment financing	3,233	3,353	-	-	3,233	3,353	-3.6%
Other city tax	18	61	19	18	37	79	-54.4%
Unrestricted investment earnings	61	4	8	2	69	6	1050.0%
Miscellaneous	<u>2,554</u>	<u>583</u>	<u>448</u>	<u>382</u>	<u>3,002</u>	<u>965</u>	<u>211.1%</u>
Total revenues	<u>22,470</u>	<u>22,617</u>	<u>8,392</u>	<u>7,487</u>	<u>30,862</u>	<u>30,104</u>	<u>2.5%</u>
Program expenses							
Public safety	5,945	4,408	-	-	5,945	4,408	34.9%
Public works	3,826	4,693	-	-	3,826	4,693	-18.5%
Health and social services	45	17	-	-	44	17	158.8%
Culture and recreation	3,119	2,800	-	-	3,119	2,800	11.4%
Community & economic develop	2,163	1,084	-	-	2,163	1,084	99.5%
General government	1,307	1,126	-	-	1,307	1,126	16.1%
Interest & developer agreement debt	3,257	2,749	-	-	3,257	2,749	18.5%
Water	-	-	4,395	4,026	4,395	4,026	9.2%
Sewer	-	-	2,467	2,219	2,467	2,219	11.2%
Storm Water	-	-	<u>69</u>	<u>-</u>	<u>69</u>	<u>-</u>	<u>100.0%</u>
Total expenses	<u>19,662</u>	<u>16,877</u>	<u>6,931</u>	<u>6,245</u>	<u>26,592</u>	<u>23,122</u>	<u>15.0%</u>
Excess of revenues over expenses	2,808	5,740	1,462	1,242	4,270	6,982	-38.9%
Operating transfers, net	2,258	(596)	(2,258)	596	-	-	
Net position, beginning of year*	<u>*80,596</u>	<u>75,539</u>	<u>*39,467</u>	<u>37,670</u>	<u>*120,062</u>	<u>113,209</u>	<u>6.1%</u>
Net position, end of year	<u>\$85,662</u>	<u>\$80,683</u>	<u>\$38,670</u>	<u>\$39,508</u>	<u>\$124,332</u>	<u>\$120,191</u>	<u>3.5%</u>

*Restated beginning net position (Note 2)

The tax rate decreased from \$11.29 to \$11.15 per \$1,000 of taxable valuation; the general purpose tax levy decreased from \$7.70 to \$7.57 per \$1,000 of taxable valuation and the general purpose tax revenue increased approximately \$359,000 as a result of increased taxable valuation. Tax increment financing valuation has been released over the past several years, which has increased the taxable valuation used to calculate the general fund tax levy. The debt service tax levy decreased from \$3.59 to \$3.58 per \$1,000 of taxable valuation. With the release of valuation, the tax increment financing revenues decreased approximately - \$120,000, or -3.6%.

Overall revenues increased approximately \$758,000, or 2.5%, from FY13 to FY14. Capital grants, contributions and restricted interest decreased mainly due to completion of an ARRA highway planning and construction grant in FY13. Charges for services increased, primarily due to an increase in the contracted fees for recycling and garbage collection, water and sewer rates.

Expenses increased overall approximately \$3,471,000, or 15.0%. Expenses increased in interest & developer agreement debt, water and sewer program areas due to rising cost of commodities such as purchased water, gasoline, oil, etc.

INDIVIDUAL MAJOR FUND ANALYSIS

Governmental Fund Highlights

As the City of Johnston completed the year, its governmental funds reported a combined fund balance of \$23,738,340, an increase of \$5,524,111 over last year's total \$18,214,229. 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 \$639,581 to \$6,431,717, a change of 11%.

The Special Revenue, Urban Renewal Tax Increment Financing (TIF) Fund balance decreased \$170,229 to \$3,726,804, a change of -4.4%.

The Debt Service Fund balance decreased \$29,115 to \$289,048.

The Capital Projects Fund balance increased \$4,848,491 to \$11,775,728. The increase is due to receiving bond proceeds for the 2013-2014 Storm Water Improvement Projects, the Joint Public Safety building, the NW Beaver Dr. reconstruction and the NW 62nd reconstruction from NW 100th to the West City Limits.

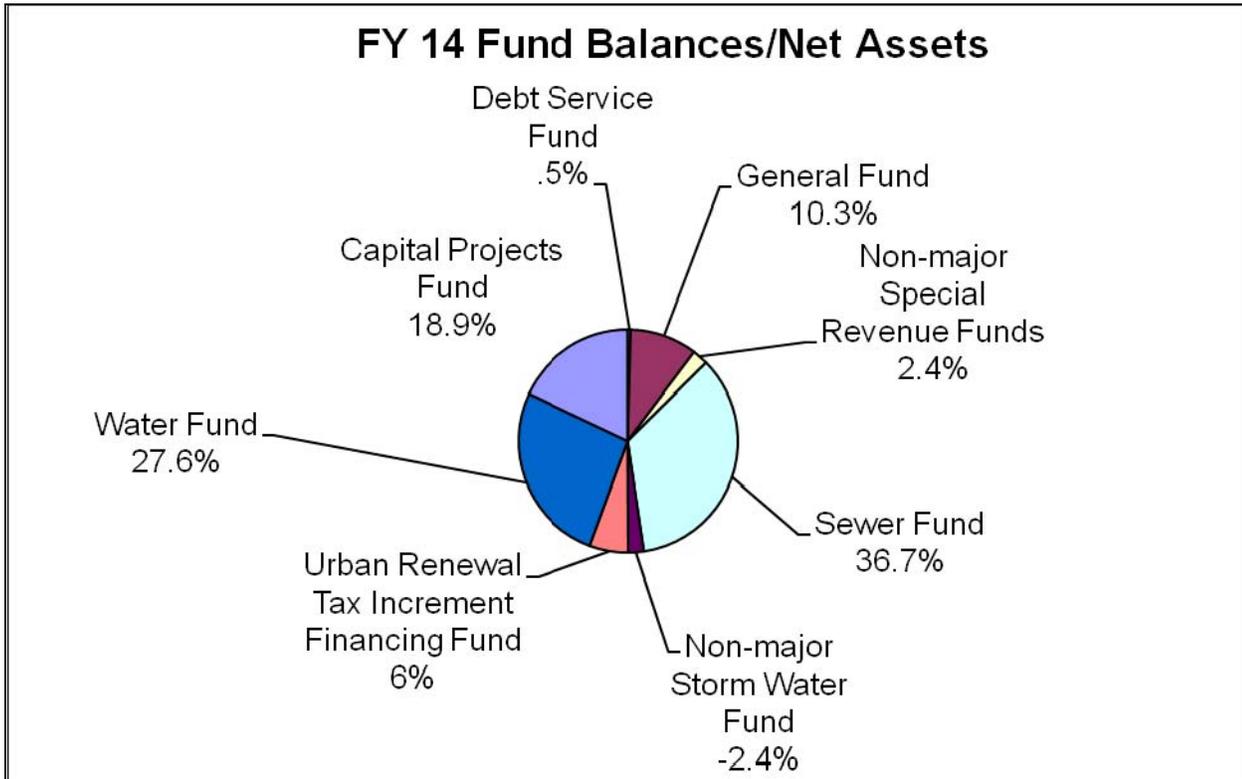
Proprietary Fund Highlights

The Water Fund, which accounts for the operation and maintenance of the City's water system, ended fiscal 2014 with a \$17,235,371 net position balance compared to the prior year ending restated net position balance of \$16,259,382, an increase of approximately 6.0%.

The Sewer Fund, which accounts for the operation and maintenance of the City's wastewater treatment system, ended fiscal 2014 with a \$22,916,101 net position balance compared to the prior year ending net position balance of \$22,745,882, an increase of 0.75%

The Storm Water Fund (a non-major enterprise fund) is now being reported separately from the Sewer Fund. The City began collecting a storm water fee from utility customers on July 1, 2012. These utility fees will pay the General Obligation debt the City issued for the 2012-2013 and 2013-2014 storm water improvement projects. The net position balance on June 30, 2014 is deficit of (\$1,481,319).

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



BUDGETARY HIGHLIGHTS

The City amended its budget twice in FY 13-14. The amendments were approved on February 18, 2014 and May 19, 2014. The amendments were necessary for various changes in the City's receipts, disbursements, and internal transfers and affected most receipt categories and all disbursement functions.

The City's receipts were \$1,967,080 more than budgeted receipts, a variance of 7.24%.

Total disbursements were \$14,485,235 less than budgeted. Actual disbursements for the capital projects and business type activities functions were \$11,193,930 and \$1,167,296, respectively, less than budgeted. The variance in the capital projects function is primarily due to less work completed in the Capital Projects Fund than anticipated on ongoing projects. The 2012-2013 Storm Water Improvement Projects bids exceeded the engineer's estimates so was rebid along with the 2013-2014 Storm Water Projects. Bond funds were also received for the NW Beaver Drive reconstruction and NW 62nd reconstruction. Projects were delayed during the wet 2014 spring.

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 \$112,875,576 (net of accumulated depreciation) at June 30, 2014. Capital assets for business type activities totaled \$44,425,272 (net of accumulated depreciation) at June 30, 2014. See note 4 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,
	2014	2013	2014	2013	2014	2013	2013-2014
Land	\$5,769	\$5,459	\$269	\$235	\$6,038	\$5,694	6.0%
Construction in progress	18,206	17,466	2,873	1,520	21,079	18,986	11.0%
Buildings	6,824	7,035	—	—	6,824	7,035	-3.0%
Improvements other than buildings	2,030	1,793	—	—	2,030	1,793	13.2%
Equipment and vehicles	3,989	3,008	262	170	4,251	3,178	33.8%
Infrastructure, road network	75,883	68,025	—	—	75,883	68,025	11.6%
Infrastructure, water/sewer network	—	—	41,021	41,495	41,021	41,495	-1.1%
Infrastructure, other	<u>175</u>	<u>206</u>	<u>—</u>	<u>—</u>	<u>175</u>	<u>206</u>	<u>-15.0%</u>
Total	<u>\$112,876</u>	<u>\$102,992</u>	<u>\$44,425</u>	<u>\$43,420</u>	<u>\$157,301</u>	<u>\$146,412</u>	<u>7.4%</u>

The major capital outlays for governmental activities during the year included completion of NW 62nd Avenue Reconstruction (Pioneer Project), and continued progress on the Signalization Improvements, Joint Public Safety Building, Fire Station #2, Lew Clarkson Improvements, Terra Lake, NW Beaver Drive/Johnston Drive reconstruction. Engineering for NW 100th (NW 62nd to NW 70th) and NW 70th (NW 86th to 107th) started in FY14, which are improvements needed for the approved bond referendum for a new Johnston High School.

For business type activities, major additions included the progress with the 2012-2013 and 2013-2014 storm water projects, and the NW Area Sanitary Sewer improvements. In addition, water and sewer mains contributed by developers were also capitalized.

Long-Term Debt

At June 30, 2014, the City had \$49,676,620 in general obligation bonds/notes outstanding for governmental activities. Total general obligation and revenue bonds/notes outstanding for business type activities was \$13,694,159 at June 30, 2014. Additional information about the City's long-term debt is presented in note 5 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,
	2014	2013	2014	2013	2014	2013	2013-2014
General obligation bonds/notes	\$49,677	\$39,457	\$7,561	\$4,603	\$57,238	\$44,060	29.9%
Revenue bonds/notes	<u>—</u>	<u>—</u>	<u>6,133</u>	<u>6,518</u>	<u>6,133</u>	<u>6,518</u>	<u>-5.9%</u>
Total	<u>\$49,677</u>	<u>\$39,457</u>	<u>\$13,694</u>	<u>\$11,121</u>	<u>\$63,371</u>	<u>\$50,578</u>	<u>25.3%</u>

During the year ended June 30, 2014 the City issued \$12,140,000 of general obligation refunding bonds, Series 2013A refunding series 2005B, 2006B, and 2008A. The City also issued \$18,095,000 of general obligation bonds, Series 2013B for the Joint Public Safety building, 2013-2014 Storm Water Projects, NW Area Sanitary Sewer Project, Merle Hay East improvements, Beaver Drive Trail, NW Beaver Drive Reconstruction and Terra Lake.

ECONOMIC FACTORS BEARING ON THE CITY’S FUTURE

Several factors affected decisions made by the City in setting its fiscal 2015 budget.

The rollback on residential properties changed to 54.4002% from 52.8166%. This means properties classified as residential in Iowa pay property tax based on 54.4002% of their assessed value. Due to legislation passed in 2013 by the Iowa Legislature, taxable value on commercial properties will be reduced from 100% to 95%.

When the city received the taxable valuations from Polk County residential valuation increased \$48,085,634 and commercial valuation decreased by \$10,039,536. Based on the 2013 valuations, the City’s net increase was \$38,125,458 in taxable valuation. The property tax levy was increased to \$11.34 per \$1,000/valuation with a net increase of \$543,166 in property tax dollars is anticipated. 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. However, in the FY11, FY12 and FY13 budgets, the City has several new TIF agreements in place and therefore an increase of \$394,082 in FY15 valuation was necessary to meet the TIF obligations to developers.

The General Fund is projected to end fiscal 2015 with a fund balance of approximately \$3,669,000.

The tax levy rates per \$1,000 of taxable valuation for fiscal 2015 are as follows:

General Fund levy	7.57334
Debt Service levy	<u>3.77058</u>
Total	11.34392

Major projects which will continue to affect the City for the next few years will be the East of Merle Hay Road projects. The residential area east of Merle Hay Road does not have improved streets, sanitary sewer, storm sewer and sidewalks. Although water service is available, the size of the mains are inadequate for a prolonged fire event. Additionally the Merle Hay Gateway Redevelopment is starting. Continuing are the storm water utility projects, the construction completion of the new Joint Public Safety building. The residents of Johnston overwhelming passed a \$14,000,000 bond referendum August 2, 2011 for these projects. Properties were acquired and construction has begun. In FY 14 the 1st phase of Terra Lake Improvements will begin along with the Beaver Drive Trail. These projects with continue in FY15 as there are multiple phases to each. Additionally the construction of NW62nd from NW 100th to the West City Limits (a joint timed project with the City of Grimes) began and the engineering and design of the NW 100th and NW 70th improvements necessary for the new Johnston High School began. Construction will begin spring 2015. There are a number of projects outlined in the Capital Improvement Plan for the next few years.

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, Iowa, 50131-0410

BASIC FINANCIAL STATEMENTS

City of Johnston, Iowa
STATEMENT OF NET POSITION
June 30, 2014

	Primary Government		Total
	Governmental Activities	Business Type Activities	
ASSETS			
Cash and pooled investments	\$ 26,481,822	\$ 3,912,852	\$ 30,394,674
Cash and investments held by the Library Foundation	219,375	-	219,375
Receivables			
Property tax			
Delinquent	43,338	-	43,338
Succeeding year	13,173,284	-	13,173,284
Tax increment financing			
Delinquent	8,083	-	8,083
Succeeding year	3,694,802	-	3,694,802
Customer accounts and unbilled usage	1,221	814,033	815,254
Accounts	437,007	-	437,007
Special assessments	406,684	-	406,684
Accrued interest	2,423	1,210	3,633
Due from other governments	512,112	-	512,112
Inventories	-	169,485	169,485
Prepaid expenses	365,131	30,631	395,762
Restricted assets			
Cash and pooled investments	-	3,297,999	3,297,999
Receivables, special assessments	-	360,421	360,421
Capital assets (net of accumulated depreciation)	88,901,148	41,283,154	130,184,302
Capital assets not being depreciated	<u>23,974,428</u>	<u>3,142,118</u>	<u>27,116,546</u>
Total assets	<u>158,220,858</u>	<u>53,011,903</u>	<u>211,232,761</u>
DEFERRED OUTFLOWS OF RESOURCES			
Deferred charge on refunding	-	46,428	46,428
LIABILITIES			
Accounts payable	441,594	65,478	507,072
Accrued interest payable	125,920	9,585	135,505
Salaries and benefits payable	267,294	23,076	290,370
Contracts payable	2,698,008	272,490	2,970,498
Due to other governments	11,629	239,859	251,488
Liabilities payable from restricted assets			
Customer deposits	-	8,480	8,480
Revenue bonds/notes	-	397,000	397,000
Accrued interest	-	15,333	15,333
Long-term liabilities			
Portion due or payable within one year			
General obligation bonds/notes	5,116,739	733,261	5,850,000
Compensated absences	162,619	11,650	174,269
Portion due or payable after one year			
General obligation bonds/notes	44,559,881	6,827,898	51,387,779
Revenue bonds/notes (net of unamortized premium/ discount)	-	5,736,000	5,736,000
Compensated absences	469,076	48,068	517,144
Net OPEB liability	<u>1,148,581</u>	<u>-</u>	<u>1,148,581</u>
Total liabilities	<u>55,001,341</u>	<u>14,388,178</u>	<u>69,389,519</u>
DEFERRED INFLOWS OF RESOURCES			
Unavailable revenues			
Succeeding year property tax	13,173,284	-	13,173,284
Succeeding year tax increment financing	3,694,802	-	3,694,802
Other	<u>689,880</u>	<u>-</u>	<u>689,880</u>
Total deferred inflows of resources	<u>17,557,966</u>	<u>-</u>	<u>17,557,966</u>
NET POSITION			
Net investment in capital assets	73,677,125	34,107,899	107,785,024
Restricted for			
Debt service	4,015,852	-	4,015,852
Capital projects	1,282,706	-	1,282,706
Revenue bond and note retirement	-	3,145,434	3,145,434
Improvements	-	662,986	662,986
Other purposes	1,496,833	-	1,496,833
Unrestricted	<u>5,189,035</u>	<u>753,834</u>	<u>5,942,869</u>
Total net position	<u>\$ 85,661,551</u>	<u>\$ 38,670,153</u>	<u>\$124,331,704</u>

See Notes to Financial Statements.

City of Johnston, Iowa
STATEMENT OF ACTIVITIES
Year ended June 30, 2014

		Program Revenues		
Expenses	Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	
FUNCTIONS/PROGRAMS				
Governmental activities				
Public safety	\$ 5,945,033	\$1,017,863	\$ 10,000	\$ -
Public works	3,825,717	-	1,717,084	37,163
Health and social services	44,696	-	-	-
Culture and recreation	3,119,265	318,131	-	-
Community and economic development	2,163,216	-	5,300	-
General government	1,307,200	634,700	-	-
Interest and developer agreement debt	<u>3,257,212</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total governmental activities	<u>19,662,339</u>	<u>1,970,694</u>	<u>1,732,384</u>	<u>37,163</u>
Business type activities				
Water	4,394,807	4,569,994	-	111,696
Sewer	2,467,462	2,554,482	-	52,497
Storm Water	<u>68,779</u>	<u>628,657</u>	<u>-</u>	<u>-</u>
Total business type activities	<u>6,931,048</u>	<u>7,753,133</u>	<u>-</u>	<u>164,193</u>
Total	<u>\$26,593,387</u>	<u>\$9,723,827</u>	<u>\$1,732,384</u>	<u>\$ 201,356</u>
GENERAL REVENUES				
Property and other city tax levied for				
General purposes				
Debt service				
Hotel/motel tax				
Tax incremental financing				
Other city tax				
Unrestricted investment earnings				
Miscellaneous				
TRANSFERS				
Total general revenues and transfers				
CHANGE IN NET POSITION				
NET POSITION BEGINNING OF YEAR				
Restatement of beginning net position (Note 2)				
NET POSITION END OF YEAR				

See Notes to Financial Statements.

**Net (Expense) Revenue and
Changes in Net position**

<u>Governmental Activities</u>	<u>Business type Activities</u>	<u>Total</u>
\$ (4,917,170)	\$ —	\$ (4,917,170)
(2,071,470)	—	(2,071,470)
(44,696)	—	(44,696)
(2,801,134)	—	(2,801,134)
(2,157,916)	—	(2,157,916)
(672,500)	—	(672,500)
<u>(3,257,213)</u>	<u>—</u>	<u>(3,257,212)</u>
<u>(15,922,098)</u>	<u>—</u>	<u>(15,922,098)</u>
—	286,883	286,883
—	139,517	139,517
—	<u>559,878</u>	<u>559,878</u>
—	<u>986,278</u>	<u>986,278</u>
(15,922,098)	986,278	(14,935,820)
8,302,009	—	8,302,009
4,284,785	—	4,284,785
277,029	—	277,029
3,233,081	—	3,233,081
17,605	19,350	36,955
61,432	8,007	69,439
2,554,327	447,698	3,002,025
<u>2,258,006</u>	<u>(2,258,006)</u>	<u>—</u>
<u>20,988,274</u>	<u>(1,782,951)</u>	<u>19,205,323</u>
5,066,176	(796,673)	4,269,503
80,683,810	39,507,911	120,191,721
<u>(88,435)</u>	<u>(41,085)</u>	<u>(129,520)</u>
<u>\$85,661,551</u>	<u>\$38,670,153</u>	<u>\$124,331,704</u>

See Notes to Financial Statements.

**City of Johnston, Iowa
BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2014**

		<u>Special Revenue</u>				
	<u>General</u>	<u>Urban Renewal Tax Increment Financing</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	<u>Total</u>
ASSETS						
Cash and pooled investments	\$ 6,096,902	\$3,742,493	\$ 274,516	\$14,418,142	\$1,211,260	\$25,743,313
Cash and investments held by the Library Foundation	-	-	-	-	219,375	219,375
Receivables						
Property tax						
Delinquent	28,806	-	14,532	-	-	43,338
Succeeding year	8,494,026	-	4,679,258	-	-	13,173,284
Tax increment financing						
Delinquent	-	8,083	-	-	-	8,083
Succeeding year	-	3,694,802	-	-	-	3,694,802
Accounts	430,597	-	-	32	6,378	437,007
Special assessments	-	-	406,684	-	-	406,684
Accrued interest	698	835	-	890	-	2,423
Due from other governments	89,455	-	-	279,351	143,306	512,112
Prepaid expenditures	<u>332,068</u>	<u>-</u>	<u>-</u>	<u>14,853</u>	<u>18,210</u>	<u>365,131</u>
 Total assets	 <u>\$15,472,552</u>	 <u>\$7,446,213</u>	 <u>\$5,374,990</u>	 <u>\$14,713,268</u>	 <u>\$1,598,529</u>	 <u>\$44,605,552</u>
LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 185,099	\$ 10,236	\$ -	\$ 85,285	\$ 51,695	\$ 332,315
Salaries and benefits payable	243,163	-	-	-	24,131	267,294
Contracts payable	113,944	11,160	-	2,572,904	-	2,698,008
Due to other governments	<u>758</u>	<u>3,211</u>	<u>-</u>	<u>-</u>	<u>7,660</u>	<u>11,629</u>
Total liabilities	<u>542,964</u>	<u>24,607</u>	<u>-</u>	<u>2,658,189</u>	<u>83,486</u>	<u>3,309,246</u>
DEFERRED INFLOWS OF RESOURCES						
Unavailable revenues						
Succeeding year property tax	8,494,026	-	4,679,258	-	-	13,173,284
Succeeding year tax increment financing	-	3,694,802	-	-	-	3,694,802
Other	<u>3,845</u>	<u>-</u>	<u>406,684</u>	<u>279,351</u>	<u>-</u>	<u>689,880</u>
Total deferred inflows of resources	<u>8,497,871</u>	<u>3,694,802</u>	<u>5,085,942</u>	<u>279,351</u>	<u>-</u>	<u>17,557,966</u>
FUND BALANCES						
Nonspendable	332,068	-	-	14,853	18,210	365,131
Reserved for						
Debt service	-	3,726,804	289,048	-	-	4,015,852
Capital projects	-	-	-	11,760,875	-	11,760,875
Other	-	-	-	-	1,496,833	1,496,833
Unassigned	<u>6,099,649</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>6,099,649</u>
Total fund balances	<u>6,431,717</u>	<u>3,726,804</u>	<u>289,048</u>	<u>11,775,728</u>	<u>1,515,043</u>	<u>23,738,340</u>
 Total liabilities, deferred inflows of resources and fund balances	 <u>\$15,472,552</u>	 <u>\$7,446,213</u>	 <u>\$5,374,990</u>	 <u>\$14,713,268</u>	 <u>\$1,598,529</u>	 <u>\$44,605,552</u>

See Notes to Financial Statements.

City of Johnston, Iowa
RECONCILIATION OF THE BALANCE SHEET—
GOVERNMENTAL FUNDS TO THE STATEMENT OF NET POSITION
June 30, 2014

Total governmental fund balances (page 18) \$ 23,738,340

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

Capital assets used in governmental activities are not current financial resources and, therefore, are not reported in the governmental funds. The cost of assets is \$144,754,010 and the accumulated depreciation is \$31,878,434. 112,875,576

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 Position. 630,451

Long-term liabilities, including bonds/notes payable, bond premiums and discounts, compensated absences payable, other postemployment benefits payable, and accrued interest payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. (51,582,816)

Net position of governmental activities (page 15) **\$ 85,661,551**

City of Johnston, Iowa
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS
Year ended June 30, 2014

	<u>Special Revenue</u>					<u>Total</u>
	<u>General</u>	<u>Urban Renewal Tax Increment Financing</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Nonmajor</u>	
REVENUES						
Property tax	\$ 8,013,149	\$ -	\$ 4,148,441	\$ -	\$ -	\$12,161,590
Tax increment financing	-	3,233,081	-	-	-	3,233,081
Other city tax	565,889	-	136,344	-	-	702,233
Licenses and permits	556,137	-	-	-	19,315	575,452
Use of money and property	87,009	380	690	43,571	10,790	142,440
Intergovernmental	296,326	5,300	-	37,163	1,727,084	2,065,873
Charges for service	1,017,863	-	-	-	-	1,017,863
Special assessments	-	-	16,935	670	-	17,605
Miscellaneous	44,809	-	109,694	84,761	60,908	300,172
Total revenues	<u>10,581,182</u>	<u>3,238,761</u>	<u>4,412,104</u>	<u>166,165</u>	<u>1,818,097</u>	<u>20,216,309</u>
EXPENDITURES						
Operating						
Public safety	4,191,942	-	-	-	4,773	4,196,715
Public works	840,257	-	-	-	1,287,620	2,127,877
Health and social services	44,696	-	-	-	-	44,696
Culture and recreation	2,527,713	-	-	-	63,952	2,591,665
Community and economic development	771,581	1,796,293	-	-	18,986	2,276,860
General government	1,053,516	-	-	-	-	1,053,516
Debt service	7,715	-	6,376,929	-	-	6,384,644
Capital projects	1,459,074	-	-	10,878,968	-	12,648,042
Total expenditures	<u>10,896,494</u>	<u>1,796,293</u>	<u>6,376,929</u>	<u>10,878,968</u>	<u>1,375,331</u>	<u>31,324,015</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(315,312)</u>	<u>1,442,468</u>	<u>(1,964,825)</u>	<u>(10,712,803)</u>	<u>442,766</u>	<u>(11,107,706)</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	237,500	10,000	1,912,502	3,185,075	30,117	5,375,194
Operating transfers out	(165,117)	(1,622,697)	-	(1,091,874)	(237,500)	(3,117,188)
Sale of assets	4,000	-	-	-	-	4,000
General obligation bonds issued	862,400	-	11,041,240	13,402,180	-	25,305,820
Payments to escrow	-	-	(11,902,874)	-	-	(11,902,874)
Bond premium, net of discount	16,110	-	884,842	65,913	-	966,865
Total other financing sources (uses)	<u>954,893</u>	<u>(1,612,697)</u>	<u>1,935,710</u>	<u>15,561,294</u>	<u>(207,383)</u>	<u>16,631,817</u>
CHANGE IN FUND BALANCES	639,581	(170,229)	(29,115)	4,848,491	235,383	5,524,111
FUND BALANCES BEGINNING OF YEAR	<u>5,792,136</u>	<u>3,897,033</u>	<u>318,163</u>	<u>6,927,237</u>	<u>1,279,660</u>	<u>18,214,229</u>
FUND BALANCES END OF YEAR	<u>\$ 6,431,717</u>	<u>\$3,726,804</u>	<u>\$ 289,048</u>	<u>\$11,775,728</u>	<u>\$1,515,043</u>	<u>\$23,738,340</u>

See Notes to Financial Statements.

City of Johnston, Iowa
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND
CHANGES IN FUND BALANCES—
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
Year ended June 30, 2014

Net change in fund balances—Total governmental funds (page 20) \$5,524,111

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	\$12,823,605	
Depreciation expense	<u>(2,922,913)</u>	9,900,692

The net effect of various miscellaneous transactions involving capital assets (i.e. sales, trade-ins, donations and disposals) to (decrease) net position:

Proceeds from the sale of capital assets		(4,000)
Loss on sale of capital assets		<u>(13,177)</u>

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 Position. Repayment of long-term liabilities is an expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issues exceeded repayments, as follows:

Issued	(25,305,820)	
Repaid	<u>15,996,739</u>	(9,309,081)

Governmental funds report the effect of premiums, discounts and similar items when debt is first issued, whereas these amounts are deferred and amortized in the Statement of Activities.

(910,720)

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	(61,301)	
Accrued interest on long-term debt	(55,714)	
Other postemployment benefits	<u>(220,146)</u>	(337,161)

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

215,512

Change in net position of governmental activities (page 17) \$5,066,176

City of Johnston, Iowa
STATEMENT OF NET POSITION
PROPRIETARY FUNDS
June 30, 2014

	Business Type Activities				Governmental Activities
	Enterprise				Internal Service
	Water	Sewer	Nonmajor Storm Water	Total	
ASSETS					
Current assets					
Cash and pooled investments	\$ 2,032,224	\$ 1,281,539	\$ 599,089	\$ 3,912,852	\$ 738,509
Receivables					
Customer accounts and unbilled usage	474,478	271,527	68,028	814,033	1,221
Accrued interest	360	850	-	1,210	-
Inventories	169,485	-	-	169,485	-
Prepaid expenses	16,055	14,576	-	30,631	-
Restricted assets					
Cash and pooled investments	223,936	3,074,063	-	3,297,999	-
Receivables, special assessments	59,390	301,031	-	360,421	-
Capital assets (net of accumulated depreciation)	18,319,211	22,963,943	-	41,283,154	-
Capital assets not being depreciated	<u>784,817</u>	<u>1,656,964</u>	<u>700,337</u>	<u>3,142,118</u>	<u>-</u>
Total assets	<u>22,079,956</u>	<u>29,564,493</u>	<u>1,367,454</u>	<u>53,011,903</u>	<u>739,730</u>
DEFERRED OUTFLOWS OF RESOURCES					
Deferred charge on refunding	<u>-</u>	<u>46,428</u>	<u>-</u>	<u>46,428</u>	<u>-</u>
LIABILITIES					
Current liabilities					
Accounts payable	37,515	27,963	-	65,478	109,279
Accrued interest payable on general obligation bonds	4,534	1,450	3,601	9,585	-
Salaries and benefits payable	11,574	11,502	-	23,076	-
Contracts payable	46,408	226,082	-	272,490	-
Due to other governments	239,859	-	-	239,859	-
Compensated absences	5,825	5,825	-	11,650	-
General obligation bonds	375,000	183,261	175,000	733,261	-
Current liabilities payable from restricted assets					
Customer deposits	8,480	-	-	8,480	-
Revenue bonds and notes	93,000	304,000	-	397,000	-
Accrued interest	5,153	10,180	-	15,333	-
Long-term liabilities					
General obligation bonds	2,025,203	2,132,523	2,670,172	6,827,898	-
Revenue bonds and notes	1,968,000	3,768,000	-	5,736,000	-
Compensated absences	<u>24,034</u>	<u>24,034</u>	<u>-</u>	<u>48,068</u>	<u>-</u>
Total liabilities	<u>4,844,585</u>	<u>6,694,820</u>	<u>2,848,773</u>	<u>14,388,178</u>	<u>109,279</u>
NET POSITION					
Net investment in capital assets	14,642,825	18,721,280	743,794	34,107,899	-
Restricted for					
Revenue bond and note retirement	270,340	2,875,094	-	3,145,434	-
Improvements	162,986	500,000	-	662,986	-
Unrestricted	<u>2,159,220</u>	<u>819,727</u>	<u>(2,225,113)</u>	<u>753,834</u>	<u>630,451</u>
Total net position	<u>\$17,235,371</u>	<u>\$22,916,101</u>	<u>\$(1,481,319)</u>	<u>\$38,670,153</u>	<u>\$ 630,451</u>

See Notes to Financial Statements.

City of Johnston, Iowa
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN FUND NET POSITION
PROPRIETARY FUNDS
Year ended June 30, 2014

	Business Type Activities				Governmental Activities
	Enterprise				Internal Service
	Water	Sewer	Nonmajor Storm Water	Total	
OPERATING REVENUES					
Charges for service	\$ 4,523,615	\$ 2,438,744	\$ 628,657	\$ 7,591,016	\$ -
Miscellaneous	372,756	74,942	-	447,698	1,300,468
Total operating revenues	<u>4,896,371</u>	<u>2,513,686</u>	<u>628,657</u>	<u>8,038,714</u>	<u>1,300,468</u>
OPERATING EXPENSES					
Governmental activities					
Public safety	-	-	-	-	403,372
Public works	-	-	-	-	151,344
Culture and recreation	-	-	-	-	216,468
Community and economic development	-	-	-	-	99,211
General government	-	-	-	-	214,606
Business type activities					
Cost of sales and services	3,832,099	1,635,943	14,203	5,482,245	-
Depreciation	437,091	632,139	-	1,069,230	-
Total operating expenses	<u>4,269,190</u>	<u>2,268,082</u>	<u>14,203</u>	<u>6,551,475</u>	<u>1,085,001</u>
Operating income	<u>627,181</u>	<u>245,604</u>	<u>614,454</u>	<u>1,487,239</u>	<u>215,467</u>
NONOPERATING REVENUES (EXPENSES)					
Interest income	549	4,388	3,070	8,007	45
Interest expense	(125,617)	(199,380)	(54,576)	(379,573)	-
Service connection fees	46,379	115,738	-	162,117	-
Special assessments	5,693	13,657	-	19,350	-
Net nonoperating revenues (expenses)	<u>(72,996)</u>	<u>(65,597)</u>	<u>(51,506)</u>	<u>(190,099)</u>	<u>45</u>
Net income before contributions and transfers	<u>554,185</u>	<u>180,007</u>	<u>562,948</u>	<u>1,297,140</u>	<u>215,512</u>
CONTRIBUTIONS AND TRANSFERS					
Operating transfers in	341,907	49,629	700,338	1,091,874	-
Operating transfers out	(31,799)	(111,914)	(3,206,167)	(3,349,880)	-
Capital contributions	111,696	52,497	-	164,193	-
Total contributions and transfers	<u>421,804</u>	<u>(9,788)</u>	<u>(2,505,829)</u>	<u>(2,093,813)</u>	<u>-</u>
CHANGE IN NET POSITION	975,989	170,219	(1,942,881)	(796,673)	215,512
NET POSITION BEGINNING OF YEAR	16,300,467	22,745,882	461,562	39,507,911	414,939
Restatement of beginning net position (Note 2)	<u>(41,085)</u>	<u>-</u>	<u>-</u>	<u>(41,085)</u>	<u>-</u>
NET POSITION END OF YEAR	<u>\$17,235,371</u>	<u>\$22,916,101</u>	<u>\$(1,481,319)</u>	<u>\$38,670,153</u>	<u>\$ 630,451</u>

See Notes to Financial Statements.

City of Johnston, Iowa
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
Year ended June 30, 2014

	Business Type				Governmental
	Activities				Activities
	Enterprise				Internal
	Water	Sewer	Nonmajor Storm Water	Total	Service
CASH FLOWS FROM OPERATING ACTIVITIES					
Cash received from customers, users and employees	\$4,451,909	\$2,550,509	\$ 623,709	\$7,626,127	\$1,300,468
Cash received from other revenues	372,756	74,942	-	447,698	-
Cash paid for personal services	(568,038)	(528,575)	-	(1,096,613)	-
Cash paid to suppliers	<u>(3,263,785)</u>	<u>(887,327)</u>	<u>(14,203)</u>	<u>(4,165,315)</u>	<u>(977,191)</u>
Net cash provided by operating activities	<u>992,842</u>	<u>1,209,549</u>	<u>609,506</u>	<u>2,811,897</u>	<u>323,277</u>
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES					
Acquisition of capital assets	(688,829)	(521,209)	(700,337)	(1,910,375)	-
Special assessments	5,693	13,657	-	19,350	-
Service connection fees	46,379	115,738	-	162,117	-
Bond issuance costs	2,774	37,836	45,172	85,782	-
General obligation bond and note proceeds	-	1,919,180	3,010,000	4,929,180	-
Principal paid on revenue bonds and notes	(90,000)	(295,000)	-	(385,000)	-
Principal paid on general obligation bonds	(375,000)	(1,518,261)	(210,000)	(2,103,261)	-
Interest paid on revenue bonds and notes	(64,530)	(131,010)	-	(195,540)	-
Interest paid on general obligation bonds	(61,687)	(74,100)	(50,975)	(186,762)	-
Transfer in from capital projects funds	<u>341,907</u>	<u>49,629</u>	<u>700,338</u>	<u>1,091,874</u>	<u>-</u>
Net cash provided by (used in) capital and related financing activities	<u>(883,293)</u>	<u>(403,540)</u>	<u>2,794,198</u>	<u>1,507,365</u>	<u>-</u>
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES					
Transfers to other funds	<u>(31,799)</u>	<u>(111,914)</u>	<u>(3,206,167)</u>	<u>(3,349,880)</u>	<u>-</u>
CASH FLOWS FROM INVESTING ACTIVITIES					
Interest on investments	<u>549</u>	<u>4,388</u>	<u>3,070</u>	<u>8,007</u>	<u>45</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	78,299	698,483	200,607	977,389	323,322
CASH AND CASH EQUIVALENTS BEGINNING OF YEAR	<u>2,177,861</u>	<u>3,657,119</u>	<u>398,482</u>	<u>6,233,462</u>	<u>415,187</u>
CASH AND CASH EQUIVALENTS END OF YEAR	<u>\$2,256,160</u>	<u>\$4,355,602</u>	<u>\$ 599,089</u>	<u>\$7,210,851</u>	<u>\$ 738,509</u>

See Notes to Financial Statements.

City of Johnston, Iowa
STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS (continued)
Year ended June 30, 2014

	Business Type Activities				Governmental Activities
	Enterprise				Internal Service
	Water	Sewer	Nonmajor Storm Water	Total	
RECONCILIATION OF OPERATING INCOME TO NET PROVIDED BY OPERATING ACTIVITIES					
Operating income	\$ 627,181	\$ 245,604	\$ 614,454	\$1,487,239	\$ 215,467
Adjustments to reconcile operating income to net cash provided by operating activities					
Depreciation	437,091	632,139	-	1,069,230	-
(Increase) decrease in customer accounts and unbilled usage and other accounts receivable	(89,555)	(14,658)	(4,948)	(109,161)	514
Decrease in special assessment receivable	17,849	126,423	-	144,272	-
(Increase) in inventories	(20,128)	-	-	(20,128)	-
Decrease in prepaid expenses	1,224	473	-	1,697	-
Increase (decrease) in accounts payable	(61,954)	14,523	-	(47,431)	107,296
Increase in contract payables	34,745	206,007	-	240,752	-
(Decrease) in compensated absences	(554)	(554)	-	(1,108)	-
Increase (decrease) in due to other governments	<u>46,943</u>	<u>(408)</u>	<u>-</u>	<u>46,535</u>	<u>-</u>
Net cash provided by operating activities	<u>\$ 992,842</u>	<u>\$1,209,549</u>	<u>\$ 609,506</u>	<u>\$2,811,897</u>	<u>\$ 323,277</u>
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON THE STATEMENT OF NET POSITION					
Current assets					
Cash and pooled investments	\$2,032,224	\$1,281,539	\$ 599,089	\$3,912,852	\$ 738,509
Restricted assets					
Cash and pooled investments	<u>223,936</u>	<u>3,074,063</u>	<u>-</u>	<u>3,297,999</u>	<u>-</u>
Cash and cash equivalents at year end	<u>\$2,256,160</u>	<u>\$4,355,602</u>	<u>\$ 599,089</u>	<u>\$7,210,851</u>	<u>\$ 738,509</u>

NONCASH INVESTING, CAPITAL AND RELATED FINANCING ACTIVITIES

During the year ended June 30, 2014, developers contributed water mains totaling \$111,696 and sanitary sewer extensions totaling \$52,497, to the Enterprise Water and Sewer Funds.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Johnston (the City) 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 accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

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 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).

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation

Government-wide Financial Statements

The Statement of Net Position and the Statement of Activities report information on all of the activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which are supported by property tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Net Position presents the City's nonfiduciary assets and liabilities, with the difference reported as net position. Net position is reported in three categories:

Net investment in capital assets 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. The related debt excludes unspent debt proceeds of \$10,478,169 in the governmental funds and \$3,376,786 in the proprietary funds.

Restricted net position results when constraints placed on net position use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net position consists of net position not meeting the definition of the two preceding categories. Unrestricted net position often has constraints on resources imposed by management which can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function are offset by program revenues. Direct expenses are those clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements

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

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax revenues and other revenues not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenditures, the fixed charges and the capital improvement costs not paid from other funds.

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

The Debt Service Fund is used to account for property tax and other revenue to be used 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 and other capital assets.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of Presentation (continued)

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 systems.

Additionally, the City reports the following nonmajor proprietary funds:

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

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.

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.

When an expenditure is incurred in governmental funds which can be paid using either restricted or unrestricted resources, the City's policy is generally to first apply the expenditure toward restricted fund balance and then to less-restrictive classifications - committed, assigned and then unassigned fund balances.

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 position 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.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Measurement Focus and Basis of Accounting (continued)

Proprietary funds distinguish operating revenues and expenses from nonoperating 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 nonoperating 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.

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Equity

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

Cash, Cash Equivalents and Pooled Investments

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

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

Property Tax Receivable, Including Tax Increment Financing

Property tax, including tax increment financing, in governmental funds is accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date the tax asking is certified by the City to the County Board of Supervisors. Delinquent property tax receivable represents taxes collected by the County but not remitted to the City at June 30, 2014 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 Council 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, 2012 assessed property valuations; is for the tax accrual period July 1, 2013 through June 30, 2014 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2013.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Capital Assets

Capital assets, which include property, equipment and vehicles and infrastructure assets acquired after July 1, 1980 (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 Position and in the Proprietary Funds Statement of Net Position. Capital assets are recorded at historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repair not adding to the value of the asset or materially extending asset lives are not capitalized. Reportable capital assets are defined by the City as assets with initial, individual costs in excess of the following thresholds and estimated useful lives in excess of three years.

<u>Asset Class</u>	<u>Amount</u>
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:

<u>Asset Class</u>	<u>Estimated useful lives</u>
Buildings	25-50 years
Improvements other than buildings	10-50 years
Vehicles	5-15 years
Equipment	5-20 years
Infrastructure	10-65 years

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, 2014. 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 Position and the proprietary fund Statement of Net Position.

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.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Deferred Inflows of Resources

Although certain revenues are measurable, they are not available. Available means collected within the current year or collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources in the governmental fund financial statements represent 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 year or collected soon enough thereafter to be used to pay liabilities of the current year. Deferred inflows of resources consist of property tax receivables, other receivables, and special assessments receivable not collected within sixty days after year end.

Deferred inflows of resources in the Statement of Net Position consist of succeeding year property tax receivables, other receivables, and special assessments receivable that will not be recognized as revenue until the year for which they are levied.

Deferred Outflows of Resources

In addition to assets, the statement of net position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualified for reporting in this category. It is the deferred charge on refunding reported in the government-wide and proprietary fund statement of net position. A deferred charge on refunding results from the difference in the carrying value of refunded debt and its reacquisition price. This amount is deferred and amortized over the shorter of the life of the refunded or refunding debt.

Fund Balances

In the governmental fund financial statements, fund balances are classified as follows:

Nonspendable - Amounts which cannot be spent either because they are in a nonspendable form or because they are legally or contractually required to be maintained intact.

Restricted - Amounts restricted to specific purposes when constraints placed on the use of the resources are either externally imposed by creditors, grantors or state or federal laws or imposed by law through constitutional provisions or enabling legislation.

Unassigned - All amounts not included in other spendable classifications.

Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2014, disbursements did not exceed the amounts budgeted in any function.

NOTE 2 CHANGE IN ACCOUNTING PRINCIPLE

In fiscal year 2014, the City of Johnston implemented Governmental Accounting Standard Board (GASB) Statement No. 65, *Items Previously Reported as Assets and Liabilities*. The statement reclassifies and recognizes certain items currently reported as assets and liabilities as one of four financial statement elements: deferred outflows of resources, outflows of resources, deferred inflows of resources, and inflows of resources. The financial impact resulting from the implementation of Statement No. 65 is the restatement of fiscal year 2014 beginning net position by \$(88,435) for governmental activities and \$(41,085) for business type activities for the write-off of unamortized bond issuance costs incurred in prior years.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 3 CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2014 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 has investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$19,242,072 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.

Interest rate risk

The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in 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.

NOTE 4 CAPITAL ASSETS

Capital assets activity for the year ended June 30, 2014 was as follows:

	<u>Balance beginning of year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance end of year</u>
Governmental activities				
Capital assets not being depreciated				
Land	\$ 5,458,609	\$ 310,000	\$ -	\$ 5,768,609
Construction in progress, road network	11,859,795	3,997,992	9,713,013	6,144,774
Construction in progress, other	<u>5,606,559</u>	<u>7,396,231</u>	<u>941,745</u>	<u>12,061,045</u>
Total capital assets not being depreciated	<u>22,924,963</u>	<u>11,704,223</u>	<u>10,654,758</u>	<u>23,974,428</u>
Capital assets being depreciated				
Buildings	9,568,139	-	-	9,568,139
Improvements other than buildings	2,180,029	334,037	-	2,514,066
Equipment and vehicles	7,185,716	1,660,202	414,106	8,431,812
Infrastructure, road network	89,822,053	9,779,901	-	99,601,954
Infrastructure, other	<u>663,611</u>	<u>-</u>	<u>-</u>	<u>663,611</u>
Total capital assets being depreciated	<u>109,419,548</u>	<u>11,774,140</u>	<u>414,106</u>	<u>120,779,582</u>
Less accumulated depreciation for				
Buildings	2,532,880	210,959	-	2,743,839
Improvements other than buildings	387,251	96,589	-	483,840
Equipment and vehicles	4,177,339	663,017	396,929	4,443,427
Infrastructure, road network	21,797,115	1,921,883	-	23,718,998
Infrastructure, other	<u>457,865</u>	<u>30,465</u>	<u>-</u>	<u>488,330</u>
Total accumulated depreciation	<u>29,352,450</u>	<u>2,922,913</u>	<u>396,929</u>	<u>31,878,434</u>
Total capital assets being depreciated, net	<u>80,067,098</u>	<u>8,851,227</u>	<u>17,177</u>	<u>88,901,148</u>
Governmental activities capital assets, net	<u>\$102,992,061</u>	<u>\$20,555,450</u>	<u>\$10,671,935</u>	<u>\$112,875,576</u>

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 4 CAPITAL ASSETS (continued)

	<u>Balance beginning of year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance end of year</u>
Business type activities				
Capital assets not being depreciated				
Land	\$ 235,261	\$ 33,910	\$ -	\$ 269,171
Construction in progress	<u>1,519,967</u>	<u>1,724,906</u>	<u>371,926</u>	<u>2,872,947</u>
Total capital assets not being depreciated	<u>1,755,228</u>	<u>1,758,816</u>	<u>371,926</u>	<u>3,142,118</u>
Capital assets being depreciated				
Equipment and vehicles	564,403	141,643	-	706,046
Infrastructure, water and sewer network	<u>52,839,035</u>	<u>546,035</u>	<u>-</u>	<u>53,385,070</u>
Total capital assets being depreciated	<u>53,403,438</u>	<u>687,678</u>	<u>-</u>	<u>54,091,116</u>
Less accumulated depreciation for				
Equipment and vehicles	394,026	49,775	-	443,801
Infrastructure, water and sewer network	<u>11,344,706</u>	<u>1,019,455</u>	<u>-</u>	<u>12,364,161</u>
Total accumulated depreciation	<u>11,738,732</u>	<u>1,069,230</u>	<u>-</u>	<u>12,807,962</u>
Total capital assets being depreciated, net	<u>41,664,706</u>	<u>(381,552)</u>	<u>-</u>	<u>41,283,154</u>
Business type activities capital assets, net	<u>\$43,419,934</u>	<u>\$1,377,264</u>	<u>\$ 371,926</u>	<u>\$44,425,272</u>

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

Governmental activities	
Public safety	\$ 283,041
Public works	2,283,538
Culture and recreation	324,533
Community and economic development	12,735
General government	<u>19,066</u>
Total depreciation expense--governmental activities	<u>\$2,922,913</u>
Business type activities	
Water	\$ 437,091
Sewer	<u>632,139</u>
Total depreciation expense--business type activities	<u>\$1,069,230</u>

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CHANGES IN LONG-TERM LIABILITIES

A summary of changes in long-term liabilities for the year ended June 30, 2014 is as follows:

	<u>Balance beginning of year</u>	<u>Increases</u>	<u>Decreases</u>	<u>Balance end of year</u>		<u>Due within one year</u>
Governmental activities						
General obligation bonds/notes	\$39,456,819	\$26,275,726	\$16,055,925	\$49,676,620	(1)	\$5,116,739
Compensated absences	570,394	631,695	570,394	631,695		162,619
Net OPEB Liability	<u>928,435</u>	<u>220,146</u>	<u>—</u>	<u>1,148,581</u>		<u>—</u>
Totals	<u>\$40,955,648</u>	<u>\$27,127,567</u>	<u>\$16,626,319</u>	<u>\$51,456,896</u>		<u>\$5,279,358</u>
Business type activities						
General obligation bonds/notes	\$ 4,603,029	\$ 5,063,402	\$ 2,105,272	\$ 7,561,159	(2)	\$ 733,261
Revenue bonds/notes	6,518,000	—	385,000	6,133,000		397,000
Compensated absences	<u>60,826</u>	<u>59,718</u>	<u>60,826</u>	<u>59,718</u>		<u>11,650</u>
Totals	<u>\$11,181,855</u>	<u>\$ 5,123,120</u>	<u>\$ 2,551,098</u>	<u>\$13,753,877</u>		<u>\$1,141,911</u>

(1) Bonds were sold at a premium; unamortized premium at June 30, 2014 totaled \$1,121,363.
Bonds were sold at a discount; unamortized discount at June 30, 2014 totaled \$53,824.

(2) Bonds were sold at a premium; unamortized premium at June 30, 2014 totaled \$120,037.
Bonds were sold at a discount; unamortized discount at June 30, 2014 totaled \$14,797.

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 \$48,609,081 at June 30, 2014.

Eleven issues of unmatured general obligation bonds/notes payable from the Debt Service Fund bear interest at rates ranging from 0.35% to 5.00% and mature in varying annual amounts ranging from \$45,000 to \$1,320,580, with final maturities due in the year ending June 30, 2033.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CHANGES IN LONG-TERM LIABILITIES (continued)

Governmental Activities (continued)

Details of general obligation bonds/notes payable at June 30, 2014 are as follows:

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest rates</u>	<u>Final due date</u>	<u>Annual payments</u>	<u>Amount originally issued</u>	<u>Outstanding June 30, 2014</u>
Refunding	January 1, 2007	5.00	June 1, 2015	\$1,080,000	\$ 5,895,000	\$ 1,080,000
Essential corporate purpose	August 1, 2007	4.25-4.75	June 1, 2022	320,000 - 430,000	4,635,000	2,970,000
Refunding capital loan notes	March 1, 2009	2.50-2.70	June 1, 2016	185,000	2,345,000	370,000
Refunding capital loan notes	March 1, 2009	2.50-2.70	June 1, 2016	310,000 - 315,000	1,765,000	625,000
Refunding capital loan notes	March 1, 2010	2.25-3.00	June 1, 2017	385,000 - 410,000	2,610,000	1,190,000
2010B General Obligation	December 1, 2010	1.75-3.50	June 1, 2026	65,000 - 75,000	970,000	820,000
2011 B Capital loan notes	April 1, 2011	2.25-4.20	June 1, 2021	175,000 - 210,000	1,850,000	1,340,000
2011C General Obligation	November 15, 2011	1.00-3.50	June 1, 2031	390,000 - 575,000	8,570,000	7,800,000
2012A General Obligation	November 15, 2012	1.00-2.40	June 1, 2032	370,000 - 700,000	9,190,000	8,530,000
2013A G.O. Refunding	July 1, 2013	2.00-5.00	June 1, 2028	45,000 - 1,320,580	10,926,000	9,754,081
2013B General Obligation	November 1, 2013	2.00-4.125	June 1, 2033	620,000 - 990,000	14,420,000	<u>14,130,000</u>
Total governmental activities						<u>\$48,609,081</u>

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

<u>Year ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 5,116,739	\$ 1,511,012	\$ 6,627,751
2016	4,125,096	1,349,630	5,474,726
2017	3,694,686	1,255,267	4,949,953
2018	3,402,222	1,138,865	4,541,087
2019	3,480,580	1,041,812	4,522,392
2020-2024	13,399,758	3,581,684	16,981,442
2025-2029	9,135,000	1,989,918	11,124,918
2030-2033	<u>6,255,000</u>	<u>520,908</u>	<u>6,775,908</u>
Total	<u>\$48,609,081</u>	<u>\$12,389,096</u>	<u>\$60,998,177</u>

General Obligation Bonds/Notes

On July 1, 2013 the City issued \$12,140,000 of general obligation refunding bonds with interest rates ranging from 2.0-5.0%, at a premium of \$952,261 for the purpose of refunding the General Obligation Series 2005B and 2006B Essential Corporate Purpose and General Obligation 2008A Capital Loan Notes payments after July 1, 2014. As a result of the refunding, the City reduced its debt service requirements by \$626,060 for a present value savings of \$592,153.

On November 1, 2013 the City issued \$18,095,000 of general obligation corporate purpose notes with interest rates ranging from 2.0% to 4.125%. These were issued for the purpose of financing the various improvements throughout the City.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CHANGES IN LONG-TERM LIABILITIES (continued)

Business Type Activities

Four issues of unmatured general obligation bonds/notes totaling \$7,455,919 and payable from the Enterprise Funds are outstanding at June 30, 2014. These bonds bear interest at rates ranging from 1.00% to 5.00% and mature in varying annual amounts ranging from \$40,000 to \$435,000, with final maturities due in the year ending June 30, 2028. 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.

Revenue Bonds/Notes

On August 5, 2009, the City entered into an agreement with the Iowa Finance Authority, the Iowa Department of Natural Resources, and Bankers Trust Company, N.A. for the issuance of \$3,410,000 of water 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 acquisition, construction, reconstruction, extending, remodeling, improving, repairing, and equipping all or part of the Municipal Water Utility. The City received drawdowns from the Trustee for costs as they are incurred. The City drew down \$2,362,000 of the \$3,410,000 authorized. This note matures in varying annual amounts ranging from \$93,000 to \$150,000, with the final maturity due in the year ending June 30, 2031.

Bankers Trust Company, 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 water revenue capital loan notes was charged by Bankers Trust Company, N.A. The total initiation fee was withheld by the bank from the first proceeds of the water revenue capital loan notes. The City has drawn all required funds on the water revenue capital loan notes, and a final repayment schedule has been adopted for the debt.

The City has pledged future water customer revenues, net of specified operating expenses, to repay \$2,362,000 in water revenue bonds/notes issued in August 2009. Proceeds from the bonds/notes provided financing for the construction of improvements and extension to the water system. The bonds/notes are payable solely from water customer net revenues and are payable through 2031. Annual principal and interest payments on the bonds/notes are expected to require less than 100 percent of the net revenues. The total principal and interest remaining to be paid on the bonds/notes is \$2,664,420. For the current year, principal and interest paid and total customer net revenues were \$154,530 and \$1,064,282, respectively. Total customer net revenues are defined for this purpose as operating income adding back depreciation.

Two issues of unmatured sewer revenue bonds, totaling \$4,072,000, are outstanding at June 30, 2014. These bonds bear interest at 3.00% and mature in varying annual amounts ranging from \$132,000 to \$231,000, with the final maturity due in the year ending June 30, 2026.

The City has pledged future sewer customer revenues, net of specified operating expenses, to repay \$6,335,000 in sewer revenue bonds/notes issued in May 2005 and May 2006. Proceeds from the bonds/notes provided financing for construction of sewer improvements. The bonds/notes are payable solely from wastewater customer net revenues and are payable through 2026. Annual principal and interest payments on the bonds/notes are expected to require less than 100 percent of the net revenues. The total principal and interest remaining to be paid on the notes is \$4,872,340. For the current year, principal and interest paid and total customer net revenues were \$426,010 and \$877,743, respectively. Total customer net revenues are defined for this purpose as operating income adding back depreciation.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CHANGES IN LONG-TERM LIABILITIES (continued)

Revenue Bonds/Notes (continued)

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

- (a) The bonds and notes will only be redeemed from the future earnings of the enterprise activity and the bond and note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts for the purpose of making the bond and note principal and interest payments when due.
- (c) Additional monthly transfers shall be made to separate water and sewer reserve accounts until specific minimum balances have been accumulated. These accounts are restricted for the purpose of paying bond and note principal and interest payments when insufficient money is available in the sinking accounts.
- (d) Additional monthly transfers of \$500 to separate water and sewer improvement accounts shall be made until balances of \$10,000 in each account have been accumulated. These accounts are restricted for the purpose of paying bond and note principal and interest payments when insufficient money is available in the sinking and reserve accounts and to pay the cost of extraordinary maintenance expenses or repair, renewals and replacements not included in the annual budget and for capital improvements to the system.
- (e) Water and sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 125% and 110%, respectively, of the amount of principal and interest on the bonds and notes falling due in the same year.

Details of general obligation bonds and revenue bonds/notes payable from Enterprise Funds at June 30, 2014 are as follows:

<u>Obligation</u>	<u>Date of issue</u>	<u>Interest rates</u>	<u>Final due date</u>	<u>Annual payments</u>	<u>Amount originally issued</u>	<u>Outstanding June 30, 2014</u>
General obligation bonds/notes						
Essential corporate purpose	August 1, 2005	3.70-4.10	June 1, 2020	\$ 65,000 - 80,000	\$ 900,000	\$ 445,000
Refunding bonds	March 1, 2011	1.55-2.80	June 1, 2020	375,000 - 435,000	3,240,000	2,415,000
2013A G.O. Refunding	July 1, 2013	2.00-5.00	June 1, 2028	60,000 - 140,000	1,214,000	1,175,919
2013B General Obligation	November 1, 2013	2.00-4.125	June 1, 2028	215,000 - 300,000	3,675,000	<u>3,420,000</u>
						<u>7,455,919</u>
Revenue bonds/notes						
Water	August 5, 2009	3.00	June 1, 2031	93,000 - 154,000	2,362,000	2,061,000
Sewer	May 17, 2005	3.00	June 1, 2025	172,000 - 231,000	3,535,000	2,198,000
Sewer	May 1, 2006	3.00	June 1, 2026	132,000 - 183,000	2,800,000	<u>1,874,000</u>
						<u>6,133,000</u>
Total business type activities						<u>\$13,588,919</u>

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 5 CHANGES IN LONG-TERM LIABILITIES (continued)

Revenue Bonds/Notes (continued)

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

<u>Year ending</u> <u>June 30</u>	<u>General Obligation Bonds</u>			<u>Revenue Bonds/Notes</u>		
	<u>Principal</u>	<u>Interest</u>	<u>Total</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2015	\$ 733,261	\$ 216,078	\$ 949,339	\$ 397,000	\$ 183,990	\$ 580,990
2016	759,904	200,431	960,335	409,000	172,080	581,080
2017	780,314	184,593	964,907	421,000	159,810	580,810
2018	787,778	163,000	950,778	433,000	147,180	580,180
2019	809,420	140,882	950,302	447,000	134,190	581,190
2020-2024	2,135,242	418,280	2,553,522	2,449,000	461,370	2,910,370
2025-2029	1,450,000	138,186	1,588,186	1,273,000	131,400	1,404,400
2030-2033	—	—	—	304,000	13,740	317,740
Totals	<u>\$7,455,919</u>	<u>\$1,461,450</u>	<u>\$8,917,369</u>	<u>\$6,133,000</u>	<u>\$1,403,760</u>	<u>\$7,536,760</u>

As of June 30, 2014, the general obligation debt issued by the City did not exceed its legal debt margin computed as follows:

Actual valuation	<u>\$1,964,033,970</u>
Debt limit – 5% of total actual valuation	\$98,201,699
Debt applicable to debt limit	
General obligation bonded debt outstanding	<u>56,065,000</u>
Legal debt margin	<u>\$42,136,699</u>
Percentage of debt limit	57.09%

NOTE 6 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 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 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.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 6 JOINT VENTURE AND COMMITMENTS (continued)

The WRA Sewer Revenue Bonds Series 2004B and 2006 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, 2014, the Series 2004B bonds had a balance of \$55,880,000 and the City of Johnston's estimated future allocation based on the WRA flows is currently \$766,445, or 1.37%. As of June 30, 2014, the Series 2006 bonds had a balance of \$33,275,000 and the City of Johnston's estimated future allocation based on the WRA flows is currently \$413,872, or 1.24%. 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, 2014, the WRA had \$252,830,590 in outstanding State Revolving Loans, of which \$3,679,238 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 position 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.

NOTE 7 INTERFUND TRANSFERS

The detail of interfund transfers for the year ended June 30, 2014 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Nonmajor special revenue	\$ 237,500
Special Revenue		
Urban renewal tax increment financing	General	10,000
Nonmajor special revenue	General	30,117
Debt Service	Special revenue	
	Urban renewal tax increment financing	1,622,697
	Water	31,799
	Sewer	111,914
	Storm water	<u>146,092</u>
		<u>1,912,502</u>
Capital projects	General	125,000
	Storm water	<u>3,060,075</u>
		<u>3,185,075</u>
Water	Capital projects	341,907
Sewer	Capital projects	49,629
Storm water	Capital projects	<u>700,338</u>
Total		<u>\$6,467,068</u>

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

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 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 \$39,752,185.

The City has rebated a total of \$16,140,041 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2014 was \$23,612,144.

NOTE 9 FORGIVABLE LOANS

The City has entered into four private development agreements for urban renewal projects. The agreements provide the City will make forgivable loans to developers in exchange for the construction of certain minimum improvements located within the City's TIF districts. The loans are amortized and are forgiven in annual amounts provided the developers comply with all requirements stipulated within the agreements. At June 30, 2014, the City had loaned \$257,290 under the agreements and forgiven \$179,598 of the loans, leaving a balance of \$77,692.

NOTE 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 5.95% of their annual covered salary and the City is required to contribute 8.93% 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, 2014, 2013 and 2012 were \$570,876, \$528,760 and \$470,749, respectively, equal to the required contributions for each year.

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB)

The City operates a single-employer retiree benefit plan which provides medical benefits for retirees and their spouses and dependents. There are active and retired members in the plan. Participant's age plus years of service must equal at least 88.

The medical benefit plans are self-insured effective July 1, 2013, and are administered by a third party. Retirees under age 65 pay 100% of the full active employee premium rates. This results in an implicit subsidy and an Other Post Employment Benefit, OPEB liability. The contribution requirements of plan members are established and may be amended by the City. The City currently finances the retiree benefit plan on a pay-as-you-go basis.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

The City's annual OPEB cost is calculated based on the annual required contribution, ARC, of the City, an amount actuarially determined in accordance with GASB Statement No. 45. The ARC represents a level of funding that, if paid on an ongoing basis, is projected to cover normal cost each year and amortize any unfunded actuarial liabilities over a period not to exceed 30 years. The following table shows the components of the City's annual OPEB cost for June 30, 2014, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution, ARC	\$ 221,000
Interest on net OPEB obligation	41,795
Adjustment to annual required contribution	<u>(42,649)</u>
Annual OPEB cost	220,146
Contributions made	<u>—</u>
Increase in net OPEB obligation	220,146
Net OPEB obligation, beginning of year	<u>928,435</u>
 Net OPEB obligation, end of year	 <u>\$1,148,581</u>

For calculation of the net OPEB obligation, the actuary has set the transition day as July 1, 2008. The end of year net OPEB obligation was calculated by the actuary as the cumulative difference between the actuarially determined funding requirements and the actual contributions for the year ended June 30, 2014.

For the year ended June 30, 2014, the City made no contributions to the plan. The City's annual OPEB cost, the percentage of annual OPEB cost contributed to the plan, and the net OPEB obligation as of June 30, 2014 are summarized as follows:

<u>Fiscal year ended</u>	<u>Annual OPEB cost</u>	<u>Percentage of annual OPEB cost contributed</u>	<u>Net OPEB obligation</u>
June 30, 2012	<u>\$220,000</u>	<u>0.0%</u>	<u>\$ 708,886</u>
June 30, 2013	<u>\$219,549</u>	<u>0.0%</u>	<u>\$ 928,435</u>
June 30, 2014	<u>\$220,146</u>	<u>0.0%</u>	<u>\$1,148,581</u>

As of July 1, 2011, the most recent actuarial valuation date for the period July 1, 2013 through June 30, 2014, the actuarial accrued liability was \$1,597,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$1,597,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$6,218,000, and the ratio of the UAAL to the covered payroll was 25.7%. As of June 30, 2014, there were no trust fund assets.

Actuarial valuations of an ongoing plan involve estimates of the value of reported amounts and assumptions about the probability of occurrence of events far into the future. Examples include assumptions about future employment, mortality, and the healthcare cost trend. Actuarially determined amounts are subject to continual revision as actual results are compared with past expectations and new estimates are made about the future. The schedule of funding progress, presented as required supplementary information in the section following the Notes to Financial Statements, presents multiyear trend information about whether the actuarial value of the plan assets is increasing or decreasing over time relative to the actuarial accrued liabilities for benefits.

Projections of benefits for financial reporting purposes are based on the plan as understood by the employer and the plan members and include the types of benefits provided at the time of each valuation and the historical pattern of sharing of benefit costs between the employer and plan members to that point. The actuarial methods and assumptions used include techniques that are designed to reduce the effects of short-term volatility in actuarial accrued liabilities and the actuarial value of assets, consistent with the long-term perspective of the calculations.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 11 OTHER POST EMPLOYMENT BENEFITS (OPEB) (continued)

As of the July 1, 2011 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5% discount rate based on the City's funding policy. The projected annual medical trend rate is 10%. The ultimate medical trend rate is 5%. The medical trend rate is reduced 0.5% each year until reaching the 5% ultimate trend rate.

Mortality rates are from the RP2000 Group Annuity Mortality Table, applied on a gender-specific basis. Annual retirement and termination probabilities were developed from the Actuary's Pension Handbook.

Projected claim costs of the medical plan per month for retirees less than age 65 are \$961 and \$627 for retirees over 65. The salary increase rate was assumed to be 2% per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

NOTE 12 INDUSTRIAL DEVELOPMENT REVENUE BONDS

The City has issued a total of \$2,500,000 of industrial development revenue bonds under the provisions of Chapter 419 of the Code of Iowa, of which \$1,780,000 is outstanding at June 30, 2014. 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.

NOTE 13 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.

Self-insurance: Effective July 1, 2013, the City changed from a partially to a fully self-insured medical expense reimbursement plan, which provides medical benefits to its employees and to the employees of affiliates. The plan provides each covered person with unlimited lifetime maximum coverage for health care needs. The plan is funded by both employee and city contributions and is administered through a three year service agreement with Frank Berlin & Associates, expiring June 30, 2016. The uninsured risk retention per person is \$35,000 (not to exceed 125 percent of the aggregate expected claims of \$852,894 for the year ended June 30, 2014). The City purchased commercial stop-loss insurance to provide for claims in excess of the \$35,000 to reduce its exposure to large losses. There has been no significant reduction in insurance coverage under the plan from prior years.

The City established the Health Deductible Claims Fund (an internal service fund) to account for and finance the uninsured risk of loss. The City's contribution to the fund for the year ended June 30, 2014 was \$1,205,454.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 13 RISK MANAGEMENT (continued)

Amounts payable from the Health Deductible Claims Fund as of June 30, 2014, totaled \$101,000 and include incurred but not reported (IBNR) and reported but not paid claims. The amounts are based on actuarial estimates of the amounts necessary to pay prior year and current year claims, and to establish a reserve for other loss. A liability for a claim is established if information indicates that it is probable that a liability has been incurred at the date of the financial statements and the amount of loss is reasonably estimable. Since this is the first year of self-funding, there were no settlements for amount exceeding the stop-loss coverage in the years ended June 30, 2013, 2012, and 2011. Information on changes in the aggregate liabilities for claims is as follows:

	Fully self funded 2014	Partially self funded 2013
Claims payable, beginning of year	\$ 1,983	\$ 646
Claims recognized	981,194	35,107
Claim payments	<u>(882,177)</u>	<u>(33,770)</u>
Claims payable, end of year	<u>\$ 101,000</u>	<u>\$ 1,983</u>

NOTE 14 CONTRACTUAL COMMITMENTS

The City has entered into construction contracts totaling approximately \$33,915,000 for construction projects. As of June 30, 2014, costs of approximately \$22,345,000 have been incurred on the projects. The balance on the contracts of approximately \$11,570,000 will be paid as work on the projects progresses.

The City has entered into an agreement with the Polk County Board of Supervisors for a joint project for the NW 66th Avenue pavement reconstruction and widening, cost to the City is approximately \$2,680,000.

NOTE 15 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS

The Governmental Accounting Standards Board (GASB) has issued several statements not yet implemented by the City. The statements which may impact the City are as follows:

GASB Statement No. 68, *Accounting and Financial Reporting for Pensions—an amendment of GASB Statement No. 27*, will be effective for the City beginning with its year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information. In addition, the Statement of Net Position is expected to include a significant liability for the government’s proportionate share of the employee pension plan.

GASB Statement No. 69, *Government Combinations and Disposals of Government Operations*, will be effective for the City beginning with its year ending June 30, 2015. This Statement establishes accounting and financial reporting standards related to government combinations and disposals of government operations. As used in this Statement, the term government combinations includes a variety of transactions referred to as mergers, acquisitions, and transfers of operations.

GASB Statement No. 70, *Accounting and Financial Reporting for Nonexchange Financial Guarantees*, will be effective for the City beginning with its year ending June 30, 2015. This Statement requires a government that extends a nonexchange financial guarantee to recognize a liability when qualitative factors and historical data, if any, indicate that it is more likely than not that the government will be required to make a payment on the guarantee.

City of Johnston, Iowa
NOTES TO FINANCIAL STATEMENTS

NOTE 15 NEW GOVERNMENTAL ACCOUNTING STANDARDS BOARD (GASB) STATEMENTS (continued)

GASB Statement No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date – An Amendment of GASB No. 68*, will be effective for the City beginning with its year ending June 30, 2015. This Statement is to address an issue regarding application of the transition provisions of Statement No. 68, *Accounting and Financial Reporting for Pensions*. The issue relates to amounts associated with contributions, if any, made by a state or local government employer or nonemployer contributing entity to a defined benefit pension plan after the measurement date of the government's beginning net pension liability.

The City's management has not yet determined the effect these Statements will have on the City's financial statements.

NOTE 16 SUBSEQUENT EVENTS

On August 14, 2014, the City issued \$7,800,000 of general obligation capital loan notes, series 2014A. The bonds are payable from a continuing annual levy of property tax against all taxable property of the City.

NOTE 17 DEFICIT BALANCES

At June 30, 2014, funds with deficit balances were as follows:

Storm water	<u>\$1,481,319</u>
Flexible spending	<u>\$ 6,184</u>

The storm water deficit balance is the result of bond proceeds transferred to capital project funds for project costs. The deficits will be eliminated by future revenues.

REQUIRED SUPPLEMENTARY INFORMATION

City of Johnston, Iowa
**BUDGETARY COMPARISON SCHEDULE OF RECEIPTS,
DISBURSEMENTS AND CHANGES IN BALANCES –
BUDGET AND ACTUAL (CASH BASIS) -
GOVERNMENTAL FUNDS AND PROPRIETARY FUNDS**
Required Supplementary Information
Year ended June 30, 2014

	Governmental funds actual	Proprietary funds actual	Total actual
RECEIPTS			
Property tax	\$12,118,252	\$ –	\$12,118,252
Tax increment financing	3,224,998	–	3,224,998
Other city tax	641,445	–	641,445
Licenses and permits	555,156	–	555,156
Use of money and property	136,105	4,365	140,470
Intergovernmental	1,920,820	–	1,920,820
Charges for services	992,359	7,423,853	8,416,212
Special assessments	17,605	163,622	181,227
Miscellaneous	<u>1,484,786</u>	<u>1,813,534</u>	<u>3,298,320</u>
Total receipts	<u>21,091,526</u>	<u>9,405,374</u>	<u>30,496,900</u>
DISBURSEMENTS			
Public safety	5,210,183	–	5,210,183
Public works	2,688,988	–	2,688,988
Health and social services	42,396	–	42,396
Culture and recreation	2,889,885	–	2,889,885
Community and economic development	2,642,449	–	2,642,449
General government	1,236,986	–	1,236,986
Debt service	7,020,917	–	7,020,917
Capital projects	9,327,506	–	9,327,506
Business type activities	–	6,832,365	6,832,365
Total disbursements	<u>31,059,310</u>	<u>6,832,365</u>	<u>37,891,675</u>
Excess (deficiency) of revenues over (under) expenditures	<u>(9,967,784)</u>	<u>2,573,009</u>	<u>(7,394,775)</u>
OTHER FINANCING SOURCES (USES)			
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	<u>18,473,529</u>	<u>(188,207)</u>	<u>18,285,322</u>
	<u>8,505,745</u>	<u>2,384,802</u>	<u>10,890,547</u>
BALANCES, beginning of year	<u>18,214,229</u>	<u>39,881,765</u>	<u>58,095,994</u>
BALANCES, end of year	<u>\$26,719,974</u>	<u>\$42,266,567</u>	<u>\$68,986,541</u>

See accompanying independent auditor's report.

Less funds not required to be budgeted	Total net	Budgeted amounts		Final to actual variance
		Original	Final	
\$ —	\$12,118,252	\$12,199,398	\$12,199,398	\$ (81,146)
—	3,224,998	3,300,720	3,233,744	(8,746)
—	641,445	648,081	648,081	(6,636)
—	555,156	398,675	464,175	90,981
1,936	138,534	61,520	97,837	40,697
—	1,920,820	1,874,616	1,927,141	(6,321)
—	8,416,212	7,370,053	7,855,714	560,498
—	181,227	200,200	239,729	(58,502)
<u>1,354,613</u>	<u>1,943,707</u>	<u>393,900</u>	<u>507,452</u>	<u>1,436,255</u>
<u>1,356,549</u>	<u>29,140,351</u>	<u>26,447,163</u>	<u>27,173,271</u>	<u>1,967,080</u>
403,372	4,806,811	4,863,822	5,292,268	485,457
151,344	2,537,644	3,348,784	3,413,970	876,326
—	42,396	51,785	51,785	9,389
275,827	2,614,058	2,638,070	2,729,621	115,563
99,211	2,543,238	3,075,185	2,714,307	171,069
214,606	1,022,380	1,385,591	1,407,608	385,228
—	7,020,917	6,195,516	7,101,894	80,977
—	9,327,506	12,573,669	20,521,436	11,193,930
—	<u>6,832,365</u>	<u>6,904,217</u>	<u>7,999,661</u>	<u>1,167,296</u>
<u>1,144,360</u>	<u>36,747,315</u>	<u>41,036,639</u>	<u>51,232,550</u>	<u>14,485,235</u>
<u>212,189</u>	<u>(7,606,964)</u>	<u>(14,589,476)</u>	<u>(24,059,279)</u>	<u>16,452,315</u>
—	<u>18,285,322</u>	<u>13,744,669</u>	<u>18,307,339</u>	<u>(22,017)</u>
<u>212,189</u>	<u>10,678,358</u>	<u>(844,807)</u>	<u>(5,751,940)</u>	<u>16,430,298</u>
<u>637,637</u>	<u>57,458,357</u>	<u>22,947,018</u>	<u>24,705,865</u>	<u>32,752,492</u>
<u>\$ 849,826</u>	<u>\$68,136,715</u>	<u>\$22,102,211</u>	<u>\$18,953,925</u>	<u>\$49,182,790</u>

City of Johnston, Iowa
BUDGET TO GAAP RECONCILIATION
Required Supplementary Information
Year ended June 30, 2014

	<u>Governmental Funds</u>			<u>Proprietary Funds</u> <u>Enterprise and Internal Service</u>		
	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Modified Accrual Basis</u>	<u>Cash Basis</u>	<u>Accrual Adjustments</u>	<u>Accrual Basis</u>
Revenues	\$21,091,526	\$ (875,217)	\$20,216,309	\$ 9,405,374	\$ 123,327	\$ 9,528,701
Expenditures	<u>31,059,310</u>	<u>264,705</u>	<u>31,324,015</u>	<u>6,832,365</u>	<u>1,183,684</u>	<u>8,016,049</u>
Net	(9,967,784)	(1,139,922)	(11,107,706)	2,573,009	(1,060,357)	1,512,652
Other financing sources (uses)	18,473,529	(1,841,712)	16,631,817	(188,207)	(1,905,606)	(2,093,813)
Beginning fund balances/net Position, as restated	<u>18,214,229</u>	<u>—</u>	<u>18,214,229</u>	<u>39,881,765</u>	<u>—</u>	<u>39,881,765</u>
Ending fund balances/net position	<u>\$26,719,974</u>	<u>\$ (2,981,634)</u>	<u>\$23,738,340</u>	<u>\$42,266,567</u>	<u>\$ (2,965,963)</u>	<u>\$39,300,604</u>

See accompanying independent auditor's report.

City of Johnston, Iowa
NOTE TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING
Year ended June 30, 2014

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 \$10,195,911. These budget amendments are reflected in the final budgeted amounts.

During the year ended June 30, 2014, no disbursements exceeded the amounts budgeted.

City of Johnston
SCHEDULE OF FUNDING PROGRESS FOR THE RETIREE HEALTH PLAN
Required Supplementary Information

<u>Fiscal year end June 30</u>	<u>Actuarial valuation date</u>	<u>Actuarial value of assets (a)</u>	<u>Actuarial accrued liability (AAL) (b)</u>	<u>Unfunded AAL (UAAL) (b - a)</u>	<u>Funded ratio (a/b)</u>	<u>Covered payroll (c)</u>	<u>UAAL as a percentage of covered payroll ((b - a)/c)</u>
2010	July 1, 2008	\$ <u>—</u>	\$ <u>726,000</u>	\$ <u>726,000</u>	<u>0.0%</u>	\$ <u>5,277,000</u>	<u>13.8%</u>
2011	July 1, 2008	\$ <u>—</u>	\$ <u>726,000</u>	\$ <u>726,000</u>	<u>0.0%</u>	\$ <u>5,434,000</u>	<u>13.6%</u>
2012	July 1, 2011	\$ <u>—</u>	\$ <u>1,597,000</u>	\$ <u>1,597,000</u>	<u>0.0%</u>	\$ <u>5,455,000</u>	<u>29.3%</u>
2013	July 1, 2011	\$ <u>—</u>	\$ <u>1,597,000</u>	\$ <u>1,597,000</u>	<u>0.0%</u>	\$ <u>5,782,000</u>	<u>27.6%</u>
2014	July 1, 2011	\$ <u>—</u>	\$ <u>1,597,000</u>	\$ <u>1,597,000</u>	<u>0.0%</u>	\$ <u>6,218,000</u>	<u>25.7%</u>

See Note 11 in the accompanying Notes to Financial Statements for the plan description, funding policy, annual OPEB Cost, Net OPEB Obligation, funded status and funding progress.

SUPPLEMENTARY INFORMATION

**City of Johnston
COMBINING BALANCE SHEET
NONMAJOR GOVERNMENTAL FUNDS
June 30, 2014**

	<u>Special Revenue Funds</u>					
	<u>Road Use Tax</u>	<u>Police</u>	<u>Law Enforcement Block Grant</u>	<u>Police Forfeitures</u>	<u>East Park District</u>	<u>Northridge Park District</u>
ASSETS						
Cash and pooled investments	\$ 889,410	\$ 58,196	\$ 2,294	\$ 895	\$ 4,001	\$ 94,482
Cash and investments held by the Library Foundation	-	-	-	-	-	-
Receivables						
Accounts	-	-	-	-	-	-
Due from other governments	133,306	10,000	-	-	-	-
Prepaid expenditures	<u>18,210</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total assets	<u>\$1,040,926</u>	<u>\$ 68,196</u>	<u>\$ 2,294</u>	<u>\$ 895</u>	<u>\$ 4,001</u>	<u>\$ 94,482</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES						
Accounts payable	\$ 50,040	\$ 1,154	\$ -	\$ -	\$ -	\$ -
Salaries and benefits payable	24,131	-	-	-	-	-
Due to other governments	7,660	-	-	-	-	-
Total liabilities	<u>81,831</u>	<u>1,154</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
FUND BALANCES						
Nonspendable	18,210	-	-	-	-	-
Restricted for						
Special revenue purposes	<u>940,885</u>	<u>67,042</u>	<u>2,294</u>	<u>895</u>	<u>4,001</u>	<u>94,482</u>
Total fund balances	<u>959,095</u>	<u>67,042</u>	<u>2,294</u>	<u>895</u>	<u>4,001</u>	<u>94,482</u>
Total liabilities and fund balances	<u>\$1,040,926</u>	<u>\$ 68,196</u>	<u>\$ 2,294</u>	<u>\$ 895</u>	<u>\$ 4,001</u>	<u>\$ 94,482</u>

See accompanying independent auditor's report.

Schedule 1

<u>Northwest Park District</u>	<u>Southwest Park District</u>	<u>Senior Citizens</u>	<u>Library</u>	<u>Community Improvement</u>	<u>Library Foundation</u>	<u>Total</u>
\$ 15,507	\$ 47,711	\$ 4,480	\$ 49,453	\$ 44,831	\$ -	\$1,211,260
-	-	-	-	-	219,375	219,375
-	-	-	6,378	-	-	6,378
-	-	-	-	-	-	143,306
-	-	-	-	-	-	18,210
<u>\$ 15,507</u>	<u>\$ 47,711</u>	<u>\$ 4,480</u>	<u>\$ 55,831</u>	<u>\$ 44,831</u>	<u>\$ 219,375</u>	<u>\$1,598,529</u>
\$ -	\$ -	\$ 449	\$ -	\$ 52	\$ -	\$ 51,695
-	-	-	-	-	-	24,131
-	-	-	-	-	-	7,660
-	-	449	-	52	-	83,486
-	-	-	-	-	-	18,210
15,507	47,711	4,031	55,831	44,779	219,375	1,496,833
<u>15,507</u>	<u>47,711</u>	<u>4,031</u>	<u>55,831</u>	<u>44,779</u>	<u>219,375</u>	<u>1,515,043</u>
<u>\$ 15,507</u>	<u>\$ 47,711</u>	<u>\$ 4,480</u>	<u>\$ 55,831</u>	<u>\$ 44,831</u>	<u>\$ 219,375</u>	<u>\$1,598,529</u>

See accompanying independent auditor's report.

City of Johnston
COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES
NONMAJOR GOVERNMENTAL FUNDS
Year ended June 30, 2014

	Special Revenue					Northridge Park District
	Road Use Tax	Police	Law Enforcement Block Grant	Police Forfeitures	East Park District	
REVENUES						
Licenses and permits	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
Use of money and property	-	6	-	-	-	10
Intergovernmental	1,717,084	10,000	-	-	-	-
Miscellaneous	-	-	-	-	-	-
Total revenues	<u>1,717,084</u>	<u>10,006</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10</u>
EXPENDITURES						
Operating						
Public safety	-	4,773	-	-	-	-
Public works	1,287,620	-	-	-	-	-
Culture and recreation	-	-	-	-	-	-
Community and economic development	-	-	-	-	-	-
Total expenditures	<u>1,287,620</u>	<u>4,773</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (deficiency) of revenues over (under) expenditures	<u>429,464</u>	<u>5,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10</u>
OTHER FINANCING SOURCES (USES)						
Operating transfers in	-	-	-	-	-	-
Operating transfers (out)	<u>(223,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total other financing sources (uses)	<u>(223,500)</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
CHANGE IN FUND BALANCES	<u>205,964</u>	<u>5,233</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>10</u>
FUND BALANCES, BEGINNING OF YEAR	<u>753,131</u>	<u>61,809</u>	<u>2,294</u>	<u>895</u>	<u>4,001</u>	<u>94,472</u>
FUND BALANCES, END OF YEAR	<u>\$ 959,095</u>	<u>\$ 67,042</u>	<u>\$ 2,294</u>	<u>\$ 895</u>	<u>\$ 4,001</u>	<u>\$ 94,482</u>

See accompanying independent auditor's report.

Schedule 2

<u>Northwest Park District</u>	<u>Southwest Park District</u>	<u>Senior Citizens</u>	<u>Library</u>	<u>Community Improvement</u>	<u>Library Foundation</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ 19,315	\$ -	\$ -	\$ 19,315
2	5	1	6,381	2,494	1,891	10,790
-	-	-	-	-	-	1,727,084
-	-	463	-	6,300	54,145	60,908
<u>2</u>	<u>5</u>	<u>464</u>	<u>25,696</u>	<u>8,794</u>	<u>56,036</u>	<u>1,818,097</u>
-	-	-	-	-	-	4,773
-	-	-	-	-	-	1,287,620
-	-	4,593	-	-	59,359	63,952
-	-	-	-	18,986	-	18,986
-	-	<u>4,593</u>	-	<u>18,986</u>	<u>59,359</u>	<u>1,375,331</u>
<u>2</u>	<u>5</u>	<u>(4,129)</u>	<u>25,696</u>	<u>(10,192)</u>	<u>(3,323)</u>	<u>442,766</u>
-	-	4,800	-	25,317	-	30,117
-	-	-	(14,000)	-	-	(237,500)
-	-	<u>4,800</u>	<u>(14,000)</u>	<u>25,317</u>	-	<u>(207,383)</u>
<u>2</u>	<u>5</u>	<u>671</u>	<u>11,696</u>	<u>15,125</u>	<u>(3,323)</u>	<u>235,383</u>
<u>15,505</u>	<u>47,706</u>	<u>3,360</u>	<u>44,135</u>	<u>29,654</u>	<u>222,698</u>	<u>1,279,660</u>
<u>\$ 15,507</u>	<u>\$ 47,711</u>	<u>\$ 4,031</u>	<u>\$ 55,831</u>	<u>\$ 44,779</u>	<u>\$ 219,375</u>	<u>\$1,515,043</u>

See accompanying independent auditor's report.

City of Johnston, Iowa
COMBINING SCHEDULE OF NET POSITION
INTERNAL SERVICE FUNDS
 June 30, 2014

	<u>Flexible Spending</u>	<u>Health Deductible Claims</u>	<u>Total</u>
ASSETS			
Current assets			
Cash and pooled investments	\$ 874	\$ 737,635	\$ 738,509
Accounts receivable	<u>1,221</u>	<u>—</u>	<u>1,221</u>
Total assets	2,095	737,635	739,730
LIABILITIES			
Current liabilities			
Accounts payable	<u>8,279</u>	<u>101,000</u>	<u>109,279</u>
NET POSITION			
Unrestricted	<u>\$ (6,184)</u>	<u>\$ 636,635</u>	<u>\$ 630,451</u>

City of Johnston, Iowa
**COMBINING SCHEDULE OF REVENUES, EXPENSES AND
 CHANGES IN FUND NET POSITION
 INTERNAL SERVICE FUNDS
 Year ended June 30, 2014**

	<u>Flexible Spending</u>	<u>Health Deductible Claims</u>	<u>Total</u>
OPERATING REVENUES			
Miscellaneous			
Contributions from employees	\$ 95,014	\$ —	\$ 95,014
Contributions from operating funds	<u>—</u>	<u>1,205,454</u>	<u>1,205,454</u>
Total operating revenues	<u>95,014</u>	<u>1,205,454</u>	<u>1,300,468</u>
OPERATING EXPENSES			
Governmental activities			
Public safety	26,753	376,619	403,372
Public works	16,270	135,074	151,344
Culture and recreation	22,720	193,748	216,468
Community and economic development	20,447	78,764	99,211
General government	<u>17,617</u>	<u>196,989</u>	<u>214,606</u>
Total operating expenses	<u>103,807</u>	<u>981,194</u>	<u>1,085,001</u>
Operating income (loss)	(8,793)	224,260	215,467
NONOPERATING REVENUES			
Interest	<u>—</u>	<u>45</u>	<u>45</u>
CHANGE IN NET POSITION	(8,793)	224,305	215,512
NET POSITION, BEGINNING OF YEAR	<u>2,609</u>	<u>412,330</u>	<u>414,939</u>
NET POSITION (DEFICIT), END OF YEAR	<u>\$ (6,184)</u>	<u>\$ 636,635</u>	<u>\$ 630,451</u>

See accompanying independent auditor's report.

City of Johnston, Iowa
COMBINING SCHEDULE OF CASH FLOWS
INTERNAL SERVICE FUNDS
Year ended June 30, 2014

	<u>Flexible Spending</u>	<u>Health Deductible Claims</u>	<u>Total</u>
CASH FLOWS FROM OPERATING ACTIVITIES			
Cash received from employees	\$ 95,014	\$ -	\$ 95,014
Cash received from operating funds reimbursements	-	1,205,454	1,205,454
Cash paid to suppliers	<u>(95,014)</u>	<u>(882,177)</u>	<u>(977,191)</u>
Net cash provided by operating activities	<u>-</u>	<u>323,277</u>	<u>323,277</u>
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest on investments	<u>-</u>	<u>45</u>	<u>45</u>
NET INCREASE IN CASH AND CASH EQUIVALENTS	-	323,322	323,322
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	<u>874</u>	<u>414,313</u>	<u>415,187</u>
CASH AND CASH EQUIVALENTS, END OF YEAR	<u>\$ 874</u>	<u>\$ 737,635</u>	<u>\$ 738,509</u>
RECONCILIATION OF OPERATING INCOME TO NET CASH PROVIDED BY OPERATING ACTIVITIES			
Operating income (loss)	\$ (8,793)	\$ 224,260	\$ 215,467
Adjustments to reconcile operating income to net cash provided by operating activities			
Decrease in accounts receivable	514	-	514
Increase in accounts payable	<u>8,279</u>	<u>99,017</u>	<u>107,296</u>
Net cash provided by operating activities	<u>\$ -</u>	<u>\$ 323,277</u>	<u>\$ 323,277</u>

See accompanying independent auditor's report.

City of Johnston, Iowa
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION -
ALL GOVERNMENTAL FUNDS
For the last ten years

	Modified Accrual Basis			
	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
REVENUES				
Property tax	\$12,161,590	\$11,575,575	\$11,354,506	\$10,957,998
Tax increment financing	3,233,081	3,353,369	2,990,804	2,172,053
Other city tax	702,233	695,594	666,448	620,145
Licenses and permits	575,452	528,237	657,882	515,654
Use of money and property	142,440	67,411	72,379	63,497
Intergovernmental	2,065,873	4,761,183	5,609,488	2,985,907
Charges for service	1,017,863	992,483	893,424	791,741
Special assessments	17,605	60,728	58,660	68,538
Miscellaneous	300,172	142,642	97,346	94,116
Totals	<u>\$20,216,309</u>	<u>\$22,177,222</u>	<u>\$22,400,937</u>	<u>\$18,269,649</u>
EXPENDITURES				
Operating				
Public safety	\$ 4,196,715	\$ 4,322,630	\$ 3,693,374	\$ 3,418,619
Public works	2,127,877	2,694,496	2,322,232	2,267,730
Health and social services	44,696	16,900	46,082	16,200
Culture and recreation	2,591,665	2,582,193	2,493,234	2,156,207
Community and economic development	2,276,860	1,020,844	925,677	973,066
General government	1,053,516	1,059,976	979,034	1,158,530
Debt service	6,384,644	7,277,133	6,876,039	5,893,194
Capital projects	<u>12,648,042</u>	<u>10,531,939</u>	<u>7,324,286</u>	<u>5,353,185</u>
Totals	<u>\$31,324,015</u>	<u>\$29,506,111</u>	<u>\$24,659,958</u>	<u>\$21,236,731</u>

See accompanying independent auditor's report.

Modified Accrual Basis					
<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u>	<u>2006</u>	<u>2005</u>
\$10,610,000	\$ 9,725,905	\$ 9,083,339	\$ 8,591,627	\$ 6,972,821	\$ 6,515,097
1,304,410	1,197,459	1,518,773	1,438,376	2,459,927	3,301,694
592,898	594,415	649,888	699,042	738,623	513,823
447,964	413,170	294,597	466,175	680,312	641,324
80,337	394,557	785,453	793,137	602,449	230,754
2,177,777	2,966,754	5,868,814	5,012,329	1,938,177	927,284
676,150	570,103	566,477	441,883	120,298	124,188
129,393	108,432	116,240	186,944	337,237	301,700
85,783	242,387	1,164,184	355,279	423,443	309,137
<u>\$16,104,712</u>	<u>\$16,213,182</u>	<u>\$20,047,765</u>	<u>\$17,984,792</u>	<u>\$14,273,287</u>	<u>\$12,865,001</u>
\$ 3,374,672	\$ 3,798,404	\$ 2,820,967	\$ 2,379,630	\$ 1,989,562	\$ 2,340,892
2,438,165	2,638,527	2,676,064	1,818,351	1,696,756	1,959,415
34,823	20,477	31,557	22,118	30,827	45,633
2,134,363	1,931,317	2,037,087	1,914,551	1,684,162	1,579,669
1,001,176	944,270	826,826	835,133	787,606	1,987,849
1,081,694	1,186,366	1,203,453	1,290,093	1,129,580	914,988
5,558,127	5,611,736	5,283,287	4,898,444	5,002,217	3,653,793
<u>2,097,238</u>	<u>2,390,891</u>	<u>8,162,135</u>	<u>8,397,962</u>	<u>8,510,036</u>	<u>1,744,667</u>
<u>\$17,720,258</u>	<u>\$18,521,988</u>	<u>\$23,041,376</u>	<u>\$21,556,282</u>	<u>\$20,830,746</u>	<u>\$14,226,906</u>

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***

Honorable Mayor and
Members of the City Council
Johnston, Iowa

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of City of Johnston, Iowa (the City), as of and for the year ended June 30, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated November 28, 2014.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control 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 and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. A significant deficiency is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City of Johnston, Iowa's operations for the year ended June 30, 2014 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.

City of Johnston's Responses to Findings

City of Johnston's responses to the findings identified in our audit are described in the accompanying schedule of findings. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.


DENMAN & COMPANY, LLP

West Des Moines, Iowa
November 28, 2014

**City of Johnston, Iowa
SCHEDULE OF FINDINGS
Year ended June 30, 2014**

Part I—Findings Related to the Financial Statements

Instances of Noncompliance

No matters were noted.

Internal Control Deficiencies

No matters were noted.

City of Johnston, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2014

Part II—Other Findings Related to Required Statutory Reporting

II-A-14 CERTIFIED BUDGET

Disbursements during the year ended June 30, 2014, did not exceed the amounts budgeted.

II-B-14 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.

II-C-14 TRAVEL EXPENSE

No expenditures of City money for travel expenses of spouses of City officials or employees were noted.

II-D-14 BUSINESS TRANSACTIONS

We noted no business transactions between the City and City officials or employees in excess of \$1,500.

II-E-14 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.

II-F-14 COUNCIL MINUTES

No transactions were found that we believe should have been approved in the Council minutes but were not.

II-G-14 DEPOSITS AND INVESTMENTS

No instances of noncompliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.

II-H-14 WATER AND SEWER REVENUE BONDS/NOTES

No instances of noncompliance with the water and sewer revenue bond/note provisions were noted.

II-I-14 ANNUAL URBAN RENEWAL REPORT

The annual urban renewal report was properly approved and certified to the Iowa Department of Management on or before December 1 and no exceptions were noted.

City of Johnston, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2014

Part II—Other Findings Related to Required Statutory Reporting (continued)

II-J-14 FINANCIAL CONDITION

The Storm Water and Flexible Spending funds had deficit balances at June 30, 2014 of \$1,481,319 and \$6,184, respectively.

Recommendation

The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

Response

The storm water fund deficit balance is due to the amount of funds borrowed for the 2012-2013 and 2013-2014 storm water capital improvement projects. The completion of the projects will allow for assets of the storm water utility to be captured thereby eliminating the deficit balance. The Flexible Spending fund deficit balance occurred due to employees ability to withdraw their entire yearly flex contribution prior to the city contributing the funds. Kabel Business agreement calls for their paying the entire amount yet only requesting the bi-weekly amount based on the yearly contributions from the City. Both of these funds have positive cash balances; yet modified accrual creates deficit balances in these two funds.

Conclusion

Response accepted.

II-K-14 OTHER INFORMATION REQUIRED BY BOND RESOLUTION

Insurance - The following insurance policies were in force at June 30, 2014:

<u>Insurer</u>	<u>Description</u>	<u>Expiration Date</u>	<u>Amount</u>
EMC Insurance Companies	Automobile coverage		
	Liability	April 1, 2015	\$1,000,000
	Uninsured motorists	April 1, 2015	1,000,000
	Underinsured motorists	April 1, 2015	1,000,000
	Comprehensive/collision	April 1, 2015	Lesser of cash value or cost of repair
	Auto medical payments	April 1, 2015	5,000
EMC Insurance Companies	Blanket		
	Building and personal property	April 1, 2015	38,571,432
EMC Insurance Companies	General liability coverage		
	General aggregate	April 1, 2015	2,000,000
	Products aggregate	April 1, 2015	2,000,000
	Personal/advertising injury	April 1, 2015	1,000,000
	Each occurrence	April 1, 2015	1,000,000
	Damage to rented property	April 1, 2015	100,000
	Medical expense	April 1, 2015	5,000

City of Johnston, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2014

Part II—Other Findings Related to Required Statutory Reporting (continued)

II-K-14 OTHER INFORMATION REQUIRED BY BOND RESOLUTION (continued)

<u>Insurer</u>	<u>Description</u>	<u>Expiration Date</u>	<u>Amount</u>
EMC Insurance Companies	Commercial crime		
	Employee theft - per employee	April 1, 2015	600,000
	Forgery or alteration	April 1, 2015	10,000
	Inside the premises	April 1, 2015	15,000
	Outside the premises	April 1, 2015	15,000
	Computer fraud	April 1, 2015	600,000
	Funds transfers fraud	April 1, 2015	600,000
	Telephone toll fraud		25,000
EMC Insurance Companies	Inland marine		
	Contractors equipment	April 1, 2015	1,176,904
	Rented contracted equipment	April 1, 2015	75,000
	Miscellaneous property	April 1, 2015	853,484
	Data processing - equipment	April 1, 2015	100,000
EMC Insurance Companies	Commercial umbrella		
	Each occurrence	April 1, 2015	10,000,000
	General aggregate	April 1, 2015	10,000,000
	Products - completed operations aggregate	April 1, 2015	2,000,000
	Personal/advertising injury	April 1, 2015	1,000,000
	Employee benefit liability occurrence	April 1, 2015	1,000,000
	Retained limit	April 1, 2015	10,000
EMC Insurance Companies	Workers' compensation		
	Bodily injury by accident	April 1, 2015	500,000
	Bodily injury by disease each employee	April 1, 2015	500,000
	Bodily injury by disease policy limit	April 1, 2015	500,000
EMC Insurance Companies	Linebacker		
	Each loss	April 1, 2015	1,000,000
	Aggregate	April 1, 2015	2,000,000
EMC Insurance Companies	Law enforcement liability		
	Each occurrence	April 1, 2015	1,000,000
	Aggregate	April 1, 2015	2,000,000
EMC Insurance Companies	Data Compromise		
	Response expenses coverage	April 1, 2015	100,000
	Defense and liability coverage	April 1, 2015	100,000
	Identity recovery	April 1, 2015	25,000

City of Johnston, Iowa
SCHEDULE OF FINDINGS (continued)
Year ended June 30, 2014

Part II—Other Findings Related to Required Statutory Reporting (continued)

II-L-14 STATISTICAL INFORMATION

<u>Description</u>	<u>Number</u>
Sewer customers served at June 30, 2014	5,646

Sewer rates in effect at June 30, 2014: Service availability fee per month of \$5.25 plus \$4.85 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	\$0.11 per pound
Suspended solids	\$0.16 per pound