

# City of Johnston, Iowa

Financial Report  
June 30, 2015



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City of Johnston, Iowa

Elected Officials

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As of January 2014

**Mayor**

Paula Dierenfeld

**Mayor Pro tem**

Gerd Clabaugh

**City Council Members**

Matt Brown

Tom Cope

David Lindeman

John Temple

**Administrator**

James P. Sanders

**Finance Director**

Teresa M. Rotschafer

**Clerk**

Cyndee Rhames

**Attorney**

Timothy Pearson

As of January 2015

**Mayor**

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**Clerk**

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**Attorney**

Timothy Pearson

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RSM US LLP

## Independent Auditor's Report

To the Honorable Mayor and  
Members of the City Council  
City of Johnston, Iowa  
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, 2015, 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, 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 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, 2015, 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.

**Emphasis of Matters**

As explained in Note 17 to the basic financial statements, the City adopted GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date*, which restated beginning net position, net pension liability and deferred outflows of resources of the governmental activities, business-type activities and enterprise funds.

As explained in Note 17, the City also restated the beginning net position of the governmental activities, business-type activities, Capital Projects Fund, the Storm Water Fund and the Aggregate Remaining Fund to record grant revenue that had not been previously reported and to correct an error in debt proceeds accounted for in the wrong fund and to remove the Library Foundation as a blended component unit in fiscal year 2014. Our opinions are not modified with respect to these matters.

**Other Matters***Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 through 12, budgetary comparison information on pages 59 through 65, the schedule of funding progress for the retiree health plan on page 64, the schedule of the City's proportionate share of the net pension liability and schedule of city contributions for the Iowa Public Employees' Retirement System on pages 65 through 68 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's basic financial statements. The combining 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. This supplementary information is the responsibility of management and was derived from and relates 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 information is 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 the *Government Auditing Standards*, we have also issued our report dated March 24, 2016 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.

*RSM US LLP*

Des Moines, Iowa  
March 24, 2016

## City of Johnston, Iowa

### Management's Discussion and Analysis Year Ended June 30, 2015

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It is an honor to present to you the financial picture of the City of Johnston, Iowa. We offer readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Johnston, Iowa for the year ended June 30, 2015.

#### Financial Highlights

The assets of the City of Johnston, Iowa exceeded its liabilities at the close of the most recent fiscal year by \$125,222,240 (net position). Of this amount, 9,035,808 is unrestricted. After the restatements discussed in Note 17 to the financial statements, assets exceeded liabilities by \$121,794,739 as of June 30, 2014.

For fiscal year 2015, the government's total net position increased \$3,427,501. Governmental activities increased by \$1,500,127 and business-type activities increased by \$1,927,374. The amounts presented in Table 2 for fiscal year 2014 were not restated since the information needed to restate these amounts was not available.

As of the close of fiscal year June 30, 2015, the City of Johnston, Iowa's governmental funds reported combined ending fund balances of \$32,774,349, an increase of \$11,608,521 in comparison with the prior year. Approximately 15.9 percent of this amount, \$5,239,356, is unassigned fund balance which is available for spending at the City's discretion.

At the end of the current fiscal year, unassigned fund balance for the General Fund was \$5,239,356 or 40.5 percent of total General Fund expenditures compared to \$6,099,649 and 55.9 percent as of June 30, 2014.

The City implemented Governmental Accounting Standards Board Statements No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date-An Amendment of GASB Statement No. 68*. The new standards resulted in a restatement to fiscal year 2014 governmental activities net position of (\$2,039,721) and business-type activities net position of (\$541,893). The City also restated governmental activities net position as of July 1, 2014 for (\$2,572,512) and business-type activities net position as of July 1, 2014 for \$2,617,161 to record grant revenue that had not been previously reported, to correct an error in debt proceeds and to remove the Library Foundation as a blended component unit.

#### Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the City of Johnston, Iowa's basic financial statements. The City's basic financial statements comprise three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to basic financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

**Government-wide financial statements** – The government-wide financial statements are designed to provide readers with a broad overview of the City of Johnston, Iowa's finances in a manner similar to a private-sector business.

The statement of net position presents information on all of the City of Johnston, Iowa's assets and deferred outflows of resources and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases or decreases in 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 underlying event giving rise to 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 only result in cash flows in future fiscal periods (e.g., uncollected taxes and earned but unused compensated absences).

## City of Johnston, Iowa

### Management's Discussion and Analysis Year Ended June 30, 2015

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Both of the government-wide financial statements separate functions of the City of Johnston, Iowa that are principally supported by taxes (governmental activities) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (business-type activities). The governmental activities of the City of Johnston, Iowa include general government, public safety, public works, culture and recreation, community development, and health and social services. The business-type activities of the City of Johnston, Iowa include water, sewer, storm water.

**Fund financial statements** – A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The City of Johnston, Iowa, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the City can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

**Governmental funds** – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financial requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City of Johnston, Iowa maintains fifteen individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for the General Fund, Urban Renewal Tax Increment Financing Fund, Debt Service Fund, and Capital Projects Fund which are considered to be major funds. Data from the other governmental funds are combined into a single, aggregated presentation. Individual fund data for each of these nonmajor governmental funds is provided in the form of combining statements elsewhere in this report.

**Proprietary funds** – The City of Johnston, Iowa maintains two different types of proprietary funds. The City maintains enterprise funds which are used to report the same functions presented as business-type activities in the government-wide financial statements and maintains internal service funds which are used to accumulate and allocate costs internally among the City's various functions.

Enterprise funds serve external customers and are primarily funded through user charges. The City of Johnston, Iowa maintains three enterprise funds. The enterprise fund financial statements provide separate information for the Water Fund, Sewer Fund, and Storm Water Fund which are major funds.

The City uses two internal service funds to account for its employee health insurance costs. Because this activity predominantly benefits governmental rather than business-type functions, it has been included within the governmental activities in the government-wide financial statements.

**Fiduciary funds** – Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are not reflected in the government-wide financial statements because the resources of these funds are not available to support the City's programs. The City does not have fiduciary funds.

**City of Johnston, Iowa**

**Management's Discussion and Analysis  
Year Ended June 30, 2015**

**Notes to basic financial statements** – The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements.

**Required Supplementary Information** – The required supplementary information further explains and supports the financial statements with a comparison of the City's budget for the year, the City's proportionate share of the net pension liability and related contributions for the City's retirement plans, as well as presenting the Schedule of Funding Progress for the retiree health plan.

**Supplementary and other information** - The combining statements referred to earlier in connection with nonmajor governmental funds and internal service funds are presented immediately following the notes to basic financial statements and the required supplementary information.

**Government-Wide Financial Analysis**

As noted earlier, net position may serve over time as a useful indicator of a government's financial position. The City's total net position has increased from a year ago. Table 1 reflects total net position of \$125,222,240, which represents an increase of \$3,427,501 from 2014.

Table 1 - Net Position

	(Restated)		(Restated)		(Restated)	
Governmental	Governmental	Business-Type	Business-Type	Total	Total	
Activities	Activities	Activities	Activities	June	June	
June	June	June	June	2015	2014	
2015	2014	2015	2014	2015	2014	
Current and other assets	\$ 54,514,728	\$ 45,389,931	\$ 9,964,390	\$ 8,586,631	\$ 64,479,118	\$ 53,976,562
Capital assets	123,229,670	112,875,576	49,620,688	44,425,272	172,850,358	157,300,848
<b>Total assets</b>	<b>177,744,398</b>	<b>158,265,507</b>	<b>59,585,078</b>	<b>53,011,903</b>	<b>237,329,476</b>	<b>211,277,410</b>
Deferred outflows of resources	641,628	506,865	134,695	110,439	776,323	617,304
Noncurrent liabilities	68,094,061	51,341,285	15,023,338	10,600,709	83,117,399	61,941,994
Other liabilities	8,903,627	8,823,803	1,857,957	1,776,212	10,761,584	10,600,015
<b>Total liabilities</b>	<b>76,997,688</b>	<b>60,165,088</b>	<b>16,881,295</b>	<b>12,376,921</b>	<b>93,878,983</b>	<b>72,542,009</b>
Deferred inflows of resources	18,838,893	17,557,966	165,683	-	19,004,576	17,557,966
Net position:						
Net investment in capital assets	70,157,323	73,677,125	40,023,864	34,107,899	110,181,187	107,785,024
Restricted	6,005,245	6,795,391	-	3,808,420	6,005,245	10,603,811
Unrestricted	6,386,877	576,802	2,648,931	2,829,102	9,035,808	3,405,904
<b>Total net position</b>	<b>\$ 82,549,445</b>	<b>\$ 81,049,318</b>	<b>\$ 42,672,795</b>	<b>\$ 40,745,421</b>	<b>\$ 125,222,240</b>	<b>\$ 121,794,739</b>

Of the City of Johnston's net position, 87.9 percent reflects its net investment in capital assets less depreciation and any related debt used to acquire those assets that are still outstanding. The City of Johnston uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending. Although the City's investment in its capital assets is reported net of related debt, it should be noted the resources needed to repay this debt must be provided from other sources since the capital assets themselves cannot be used to liquidate these liabilities. A restricted portion of the City's net position (4.7 percent as of June 30, 2015) represents resources that are subject to external restrictions on how they may be used. The remaining balance of unrestricted net position, \$9,035,808 may be used to meet the government's ongoing obligations to citizens and creditors.

City of Johnston, Iowa

Management's Discussion and Analysis  
Year Ended June 30, 2015

Table 2 highlights the City's revenues and expenses for the year ended June 30, 2015. These two main components are subtracted to yield the change in net position. This table utilizes the full accrual method of accounting.

Revenue is further divided into two major components: program revenue and general revenue. Program revenue is defined as charges for sales and services, operating grants and contributions and capital grants and contributions. General revenue includes taxes, investment income and other unrestricted revenue sources.

Table 2 - Changes in Net Position

	Governmental		Business-Type		Total	
	(Not Restated)	(Not Restated)	(Not Restated)	(Not Restated)	(Not Restated)	(Not Restated)
	Governmental	Governmental	Business-Type	Business-Type	Total	Total
	Activities	Activities	Activities	Activities	Total	Total
	2015	2014	2015	2014	2015	2014
Revenues:						
Program revenues:						
Charges for services	\$ 2,376,360	\$ 1,970,694	\$ 6,860,868	\$ 7,753,133	\$ 9,237,228	\$ 9,723,827
Operating grants and contributions	1,844,962	1,732,384	-	-	1,844,962	1,732,384
Capital grants and contributions	544,536	37,163	1,134,092	164,193	1,678,628	201,356
General revenues:						
Property taxes	13,251,224	12,586,794	-	-	13,251,224	12,586,794
Hotel/Motel tax	297,452	277,029	-	-	297,452	277,029
Tax increment financing	3,733,446	3,233,081	-	-	3,733,446	3,233,081
Other taxes	407,567	17,605	-	19,350	407,567	36,955
Investment earnings	79,557	61,432	20,986	8,007	100,543	69,439
Miscellaneous	2,194,543	2,554,327	667,801	447,698	2,862,344	3,002,025
<b>Total revenues</b>	<b>24,729,647</b>	<b>22,470,509</b>	<b>8,683,747</b>	<b>8,392,381</b>	<b>33,413,394</b>	<b>30,862,890</b>
Expenses:						
Public safety	\$ 6,591,366	\$ 5,945,033	\$ -	\$ -	\$ 6,591,366	\$ 5,945,033
Public works	5,636,466	3,825,717	-	-	5,636,466	3,825,717
Health and social services	50,666	44,696	-	-	50,666	44,696
Culture and recreation	3,500,313	3,119,265	-	-	3,500,313	3,119,265
Community development	3,159,671	2,163,216	-	-	3,159,671	2,163,216
General government	2,114,649	1,307,200	-	-	2,114,649	1,307,200
Interest on long-term debt	2,394,350	3,257,212	-	-	2,394,350	3,257,212
Water	-	-	3,753,359	4,394,807	3,753,359	4,394,807
Sewer	-	-	2,596,403	2,467,462	2,596,403	2,467,462
Storm water	-	-	188,650	68,779	188,650	68,779
<b>Total expenses</b>	<b>23,447,481</b>	<b>19,662,339</b>	<b>6,538,412</b>	<b>6,931,048</b>	<b>29,985,893</b>	<b>26,593,387</b>
<b>Excess (deficiency) before transfers</b>	<b>1,282,166</b>	<b>2,808,170</b>	<b>2,145,335</b>	<b>1,461,333</b>	<b>3,427,501</b>	<b>4,269,503</b>
Transfers	217,961	2,258,006	(217,961)	(2,258,006)	-	-
<b>Change in net position</b>	<b>1,500,127</b>	<b>5,066,176</b>	<b>1,927,374</b>	<b>(796,673)</b>	<b>3,427,501</b>	<b>4,269,503</b>
Net position, beginning, as restated	81,049,318	80,595,375	40,745,421	39,466,826	121,794,739	120,062,201
Net position, ending	\$ 82,549,445	\$ 85,661,551	\$ 42,672,795	\$ 38,670,153	\$ 125,222,240	\$ 124,331,704

**City of Johnston, Iowa**

**Management's Discussion and Analysis  
Year Ended June 30, 2015**

The City's total net position increased by \$3,427,501 during the year ended June 30, 2015. The governmental activities' net position increased by \$1,500,127. The total business-type activities' net position increased by \$1,927,374. The governmental activities net position and business-type activities net position increased due to improvement in the funding ratio of the City's retirement systems causing a decrease in net pension liabilities, and increases in property taxes and other taxes.

Table 3 below discloses cost of services for governmental activities.

The total cost of services column contains all costs related to the programs and the net cost column shows how much of the total amount is not covered by program revenues. Succinctly put, net costs are costs that must be covered by local taxes or other general revenue or transfers.

Table 3 - Governmental Activities

Programs	Total Cost of	(Not Restated)	Net Cost of	(Not Restated)
	Services	Total Cost of	Services	Net Cost of
	2015	2014	2015	2014
Public safety	\$ 6,591,366	\$ 5,945,033	\$ 4,962,100	\$ 4,917,170
Public works	5,636,466	3,825,717	3,795,504	2,071,470
Health and social services	50,666	44,696	50,666	44,696
Culture and recreation	3,500,313	3,119,265	3,014,741	2,801,134
Community and economic development	3,159,671	2,163,216	3,159,671	2,157,916
General government	2,114,649	1,307,200	1,304,591	672,500
Interest on long-term debt	2,394,350	3,257,212	2,394,350	3,257,212
<b>Total</b>	<b>\$ 23,447,481</b>	<b>\$ 19,662,339</b>	<b>\$ 18,681,623</b>	<b>\$ 15,922,098</b>

Net cost of services is 79.6 percent of total cost of services for the year ended June 30, 2015 and 80.9 percent for the year ended June 30, 2014. As expected, this reflects a continued reliance on taxes and other general revenue sources to fund the cost of services.

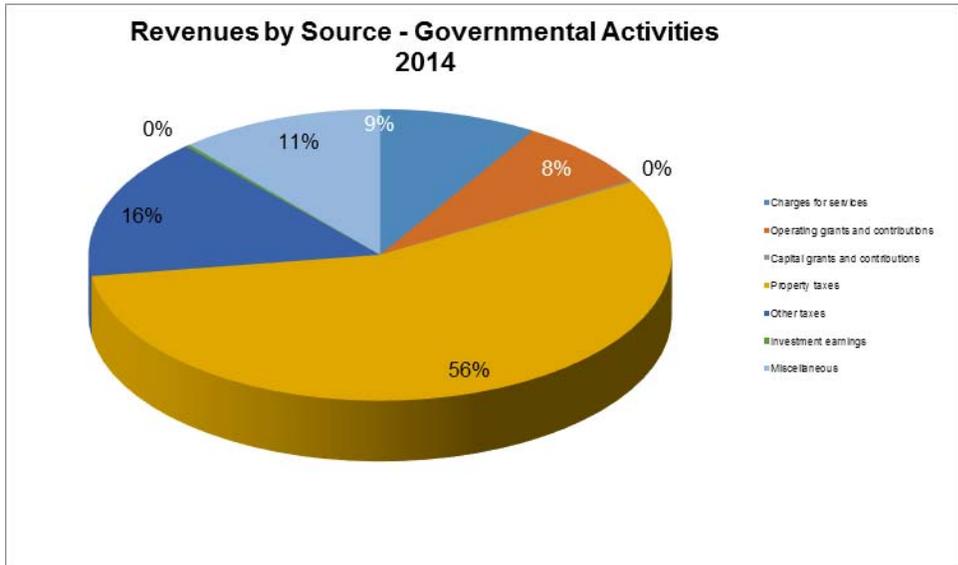
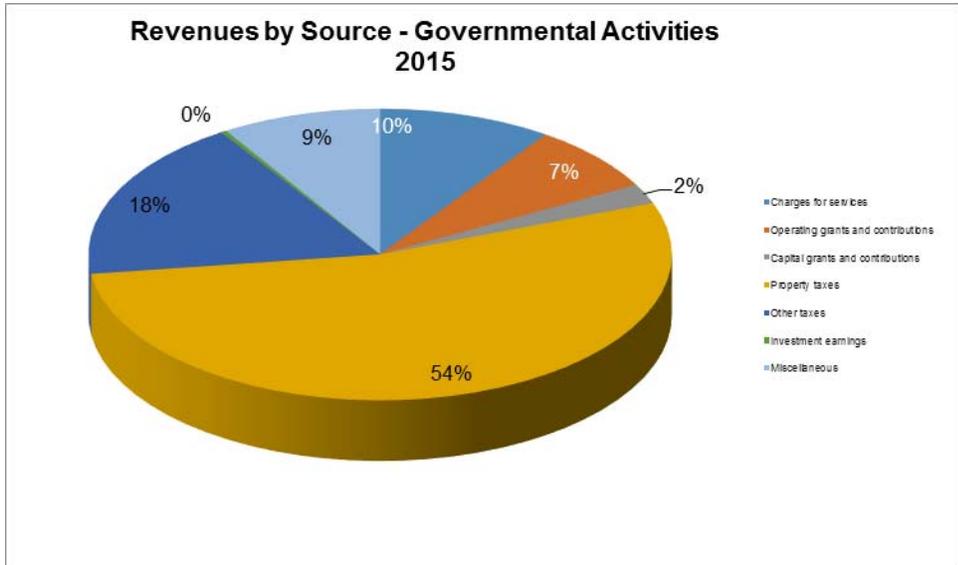
City of Johnston, Iowa

Management's Discussion and Analysis  
Year Ended June 30, 2015

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Governmental Activities

The graphs below show the percentage of the total governmental activities revenues allocated by each revenue type for 2015 and 2014.



City of Johnston, Iowa

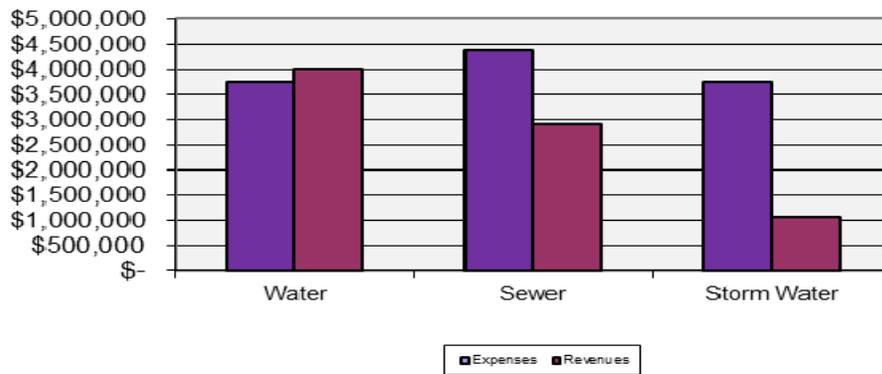
Management's Discussion and Analysis  
Year Ended June 30, 2015

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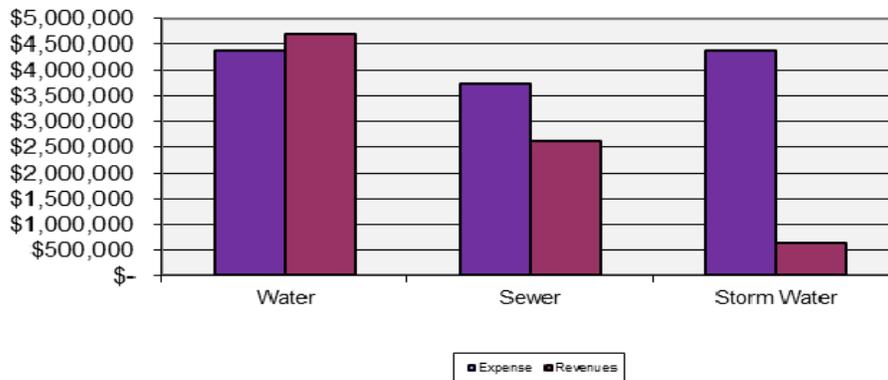
**Business-type activities:** For the year ended June 30, 2015, business-type activities increased the City of Johnston's net position by \$1,927,374.

Total business-type activities' revenue for the fiscal year was \$8,683,747. All but \$688,787 of this revenue was generated for specific business-type activity expenses. The graph below shows a comparison between the business-type activity expenditures and program revenues for 2015 and 2014.

**Expenses and Program Revenues - Business-Type Activities  
2015**



**Expenses and Program Revenues - Business-Type Activities  
2014**



## City of Johnston, Iowa

### Management's Discussion and Analysis Year Ended June 30, 2015

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#### Financial Analysis of the Government's Funds

As noted earlier, the City of Johnston, Iowa uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

**Governmental funds** – The focus of the City of Johnston, Iowa's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for discretionary use as they represent the portion of fund balance which has not yet been limited to use for a particular purpose by either an external party, the City of Johnston itself, or a group or individual that has been delegated authority to assign resources for use for particular purposes by the City of Johnston's City Council.

As of June 30, 2015, the City of Johnston, Iowa's governmental funds reported combined ending fund balances of \$32,774,349, an increase of \$11,608,521 from June 30, 2014. The City's unassigned balance was \$5,239,356 as of June 30, 2015. The remainder of the fund balance is either nonspendable, restricted, committed, or assigned to indicate that it is 1) not in spendable form- \$583,184, 2) legally required to be maintained intact or restricted for particular purposes or by third parties - \$26,951,809 or 3) committed for particular purposes - \$0.

The General Fund is the chief operating fund of the City. At the end of the current fiscal year, unassigned fund balance of the General Fund was \$5,239,356, while total fund balance decreased by (\$626,394). As a measure of the General Fund's liquidity, it may be useful to compare both unassigned fund balance and total fund balance to general fund expenditures. Unassigned fund balance represents approximately 40.5 percent while total fund balance represents approximately 44.9 percent of General fund expenditures.

The General Fund's largest revenue source is taxes which consists of property taxes and other taxes. These sources contribute 78.3 percent of revenue used to fund the general purposes of the City including police, streets and parks. These revenue sources have a direct correlation with the health of the economy. Another 9.6 percent of the City's General Fund revenues were derived from charges for services. The fund balance of the City's General Fund decreased by (\$626,394) during the current fiscal year.

The Urban Renewal Tax Increment Financing Fund accounts for tax increment financing revenues and uses. Fund balance increased \$842,131 from \$3,726,804 in 2014 to \$4,568,935 in 2015 due to an increase in sales tax collected.

The Debt Service Fund fund balance decreased (\$123,879) from \$289,048 in 2014 to \$165,69 in 2015. The Debt Service Fund continues to service debt as it becomes due.

The Capital Projects Fund fund balance increased \$11,555,867 from \$9,422,591 in 2014 to \$20,978,458 in 2015. This increase was due to issuance of long-term debt to fund planned capital projects.

**Proprietary funds** – The City of Johnston's proprietary funds provide the same type of information found in the government-wide financial statements but in more detail. The Water Fund net position increased \$467,452 from \$16,964,421 in 2014 to \$17,431,873 in 2015. The Sewer Fund net position increased \$680,046 from \$22,645,158 in 2014 to \$23,325,204 in 2015. The Storm Water Fund net position increased \$779,876 from \$1,135,842 in 2014 to \$1,915,718 in 2015.

**City of Johnston, Iowa**

**Management’s Discussion and Analysis  
Year Ended June 30, 2015**

**Budgetary Highlights**

Formal and legal budgetary control is based on classes of disbursements known as functions, not by fund or fund type. During the year, two budget amendments increased budgeted expenditures by a total of \$21,312,602. The budget amendments were made to adjust revenues and expenditures for capital projects (NW 70th, NW 100th, NW 62nd from 103rd to WCL) and additional Intergovernmental Funds anticipated due to joint project with Johnston School and related financing. During the year, expenditures for all functions were less than budgeted.

**Capital Asset and Debt Administration**

**Capital assets** - The City of Johnston’s investment in capital assets for its governmental and business-type activities as of June 30, 2015, amounts to \$172,850,358 (net of accumulated depreciation). This investment in capital assets includes land, construction-in-progress, buildings and improvements, equipment, and infrastructure. Major capital projects were the Merle Hay road area improvements and Merle Hay Gateway Redevelopment. Significant public improvements continue in 2016 with planned projects including:

- The construction of phase 2 and 3 of Terra Lake
- Phase 4 of the NW Beaver Drive Trail
- Phase 1 of NW 70th Avenue
- NW 63rd Place from Merle Hay Road to NW 59th Court
- The intersection of NW 54th Avenue and NW 100th Street
- The completion of NW 100th Street from NW 62nd Avenue to NW 70th Avenue,
- The water main from the Saylorville Water Plant to NW 62nd Avenue
- Continuation of the improvements east of Merle Hay Road (NW 60th Avenue public improvements)

	Capital Assets net of depreciation					
	Governmental Activities		Business-Type		Total	
	2015	2014	2015	2014	2015	2014
Land	\$ 4,833,182	\$ 5,768,609	\$ 269,171	\$ 269,171	\$ 5,102,353	\$ 6,037,780
Construction-in-progress	17,565,536	18,205,819	4,063,595	2,872,947	21,629,131	21,078,766
Buildings	18,562,468	6,824,300	-	-	18,562,468	6,824,300
Improvements	1,841,375	2,030,226	-	-	1,841,375	2,030,226
Equipment and vehicles	4,001,479	3,988,385	374,481	262,245	4,375,960	4,250,630
Infrastructure	76,425,630	76,058,237	44,913,441	41,020,909	121,339,071	117,079,146
<b>Total</b>	<b>\$ 123,229,670</b>	<b>\$112,875,576</b>	<b>\$ 49,620,688</b>	<b>\$ 44,425,272</b>	<b>\$ 172,850,358</b>	<b>\$ 157,300,848</b>

Additional information on the City of Johnston’s capital assets can be found in Note 3 of this report.

## City of Johnston, Iowa

### Management's Discussion and Analysis Year Ended June 30, 2015

**Debt** - As of June 30, 2015, the City of Johnston, Iowa had general obligation bonds and revenue bonds payable totaling \$86,324,973 compared to \$63,370,779 as of June 30, 2014. For the year ended June 30, 2015, the City paid \$6,740,919 in principal. The City issued \$28,775 of general obligation bonds for capital improvements.

Table 5 - Outstanding Debt, June30

	Governmental Activities		Business-Type Activities		Total	
	2015	2014	2015	2014	2015	2014
General obligation bonds	\$ 70,440,062	\$ 49,676,620	\$ 10,148,911	\$ 7,561,159	\$ 80,588,973	\$ 57,237,779
Revenue bonds	-	-	5,736,000	6,133,000	5,736,000	6,133,000
Compensated absences	643,239	631,695	60,374	59,718	703,613	691,413
Net OPEB liability	1,487,000	1,148,581	-	-	1,487,000	1,148,581
Net pension liability	1,027,967	2,546,586	434,441	605,904	1,462,408	3,152,490
	<b>\$ 73,598,268</b>	<b>\$ 54,003,482</b>	<b>\$ 16,379,726</b>	<b>\$ 14,359,781</b>	<b>\$ 89,977,994</b>	<b>\$ 68,363,263</b>

Additional information about the City's long-term debt can be found in Note 4 to the financial statements.

#### Economic Factors and Next Year's Budgets and Rates

- The unemployment rate for Polk County for June 2015 was 3.5% compared to 3.6% for the State of Iowa and 5.3% nationally.
- The General Fund is significantly funded by property taxes. Therefore, the City continues to encourage new development that supports these revenue sources.
- Total budgeted expenditures for the fiscal year 2016 is \$40,521,710.

#### Requests for Information

This financial report is designed to provide a general overview of the City of Johnston's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Teresa Rotschafer, Finance Director, 6221 Merle Hay Road, P.O. Box 410, Johnston, Iowa, 50131-0410.

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City of Johnston, Iowa

Statement of Net Position  
June 30, 2015

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Assets</b>			
Current assets:			
Cash and investments	\$ 35,263,256	\$ 8,407,400	\$ 43,670,656
Receivables			
Property tax			
Delinquent	55,846	-	55,846
Succeeding year	13,310,878	-	13,310,878
Tax increment financing			
Delinquent	6,238	-	6,238
Succeeding year	4,216,004	-	4,216,004
Customer accounts and unbilled usage	68,345	836,228	904,573
Accounts, net allowance of \$302,887	236,203	-	236,203
Special assessments	391,963	232,692	624,655
Accrued interest	2,423	1,210	3,633
Due from other governments	380,388	49,044	429,432
Inventories	-	400,028	400,028
Prepaid expenses	583,184	37,788	620,972
<b>Total current assets</b>	<b>54,514,728</b>	<b>9,964,390</b>	<b>64,479,118</b>
Noncurrent assets:			
Capital assets:			
Land and construction in progress	22,398,718	4,332,766	26,731,484
Capital assets being depreciated, net	100,830,952	45,287,922	146,118,874
<b>Total noncurrent assets</b>	<b>123,229,670</b>	<b>49,620,688</b>	<b>172,850,358</b>
<b>Total assets</b>	<b>177,744,398</b>	<b>59,585,078</b>	<b>237,329,476</b>
<b>Deferred outflows of resources</b>			
Deferred charge on refunding	-	43,092	43,092
Pension related amounts	641,628	91,603	733,231
<b>Total deferred outflows of resources</b>	<b>641,628</b>	<b>134,695</b>	<b>776,323</b>

See Notes to Financial Statements.

	Primary Government		
	Governmental Activities	Business-Type Activities	Total
<b>Liabilities</b>			
Current liabilities:			
Accounts payable	\$ 459,287	\$ 94,058	\$ 553,345
Accrued interest payable	183,727	39,855	223,582
Salaries and benefits payable	404,294	23,076	427,370
Contracts payable	2,224,173	27,108	2,251,281
Due to other governments	127,939	308,990	436,929
Customer deposits	-	8,480	8,480
Revenue bonds/notes	-	409,000	409,000
General obligation bonds/notes	4,885,096	899,904	5,785,000
Compensated absences	619,111	47,486	666,597
<b>Total current liabilities</b>	<b>8,903,627</b>	<b>1,857,957</b>	<b>10,761,584</b>
Long-term liabilities:			
General obligation bonds/notes (net of unamortized premium/discount)	65,554,966	9,249,007	74,803,973
Revenue bonds/notes (net of unamortized premium/discount)	-	5,327,000	5,327,000
Compensated absences	24,128	12,890	37,018
Net OPEB liability	1,487,000	-	1,487,000
Net pension liability	1,027,967	434,441	1,462,408
<b>Total long-term liabilities</b>	<b>68,094,061</b>	<b>15,023,338</b>	<b>83,117,399</b>
<b>Total liabilities</b>	<b>76,997,688</b>	<b>16,881,295</b>	<b>93,878,983</b>
<b>Deferred inflows of resources</b>			
Property taxes	13,310,878	-	13,310,878
Tax increment financing	4,216,004	-	4,216,004
Pension related amounts	1,312,011	165,683	1,477,694
<b>Total deferred inflows of resources</b>	<b>18,838,893</b>	<b>165,683</b>	<b>19,004,576</b>
<b>Net Position</b>			
Net investment in capital assets	70,157,323	40,023,864	110,181,187
Restricted:			
Debt service	4,550,377	-	4,550,377
Roads	919,268	-	919,268
Police	57,886	-	57,886
Culture and recreation	436,463	-	436,463
Community development	41,251	-	41,251
Unrestricted	6,386,877	2,648,931	9,035,808
<b>Total net position</b>	<b>\$ 82,549,445</b>	<b>\$ 42,672,795</b>	<b>\$ 125,222,240</b>

**City of Johnston, Iowa**

**Statement of Activities  
Year Ended June 30, 2015**

	Expenses	Program Revenues		
		Charges for Services	Operating Grants and Contributions and Restricted Interest	Capital Grants and Contributions and Restricted Interest
<b>Governmental Activities:</b>				
Public safety	\$ 6,591,366	\$ 1,080,730	\$ 4,000	\$ 544,536
Public works	5,636,466	-	1,840,962	-
Health and social services	50,666	-	-	-
Culture and recreation	3,500,313	485,572	-	-
Community development	3,159,671	-	-	-
General government	2,114,649	810,058	-	-
Interest on debt	2,394,350	-	-	-
<b>Total governmental activities</b>	<b>23,447,481</b>	<b>2,376,360</b>	<b>1,844,962</b>	<b>544,536</b>
<b>Business-Type Activities:</b>				
Water	3,753,359	3,710,473	-	304,680
Sewer	2,596,403	2,445,881	-	470,032
Storm water	188,650	704,514	-	359,380
<b>Total business-type activities</b>	<b>6,538,412</b>	<b>6,860,868</b>	<b>-</b>	<b>1,134,092</b>
<b>Total</b>	<b>\$ 29,985,893</b>	<b>\$ 9,237,228</b>	<b>\$ 1,844,962</b>	<b>\$ 1,678,628</b>

General revenues and transfers:

Property taxes and other city taxes levied for:

General purposes

Debt Service

Hotel/motel tax

Tax increment financing

Other city tax

Unrestricted investment earnings

Miscellaneous

Transfers

**Total general revenues  
and transfers**

**Change in net position**

Net position, beginning of year, as restated

Net position, end of year

See Notes to Financial Statements.

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Net (Expense) Revenue and Changes in Net Position

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Governmental Activities	Business-Type Activities	Total
\$ (4,962,100)	\$ -	\$ (4,962,100)
(3,795,504)	-	(3,795,504)
(50,666)	-	(50,666)
(3,014,741)	-	(3,014,741)
(3,159,671)	-	(3,159,671)
(1,304,591)	-	(1,304,591)
(2,394,350)	-	(2,394,350)
(18,681,623)	-	(18,681,623)
-	261,794	261,794
-	319,510	319,510
-	875,244	875,244
-	1,456,548	1,456,548
(18,681,623)	1,456,548	(17,225,075)
8,502,584	-	8,502,584
4,748,640	-	4,748,640
297,452	-	297,452
3,733,446	-	3,733,446
407,567	-	407,567
79,557	20,986	100,543
2,194,543	667,801	2,862,344
217,961	(217,961)	-
20,181,750	470,826	20,652,576
1,500,127	1,927,374	3,427,501
81,049,318	40,745,421	121,794,739
\$ 82,549,445	\$ 42,672,795	\$ 125,222,240

City of Johnston, Iowa

**Balance Sheet - Governmental Funds**  
**June 30, 2015**

	General Fund	Urban Renewal Tax Increment Financing	Debt Service
<b>Assets</b>			
Pooled cash and investments	\$ 5,636,371	\$ 4,568,126	\$ 146,128
Receivables:			
Property tax			
Delinquent	36,834	-	19,012
Succeeding year	8,569,878	-	4,741,000
Tax increment financing			
Delinquent	-	6,238	-
Succeeding year	-	4,216,004	-
Accounts	229,757	-	-
Special assessments	-	-	391,963
Accrued interest	698	835	-
Due from other funds	-	-	-
Due from other governments	90,544	-	29
Prepaid expenditures	565,967	-	-
<b>Total assets</b>	<b>\$ 15,130,049</b>	<b>\$ 8,791,203</b>	<b>\$ 5,298,132</b>
<b>Liabilities, deferred inflows of resources and fund balances</b>			
Liabilities:			
Accounts payable	\$ 205,658	\$ 6,264	\$ -
Salaries and benefits payable	348,818	-	-
Contracts payable	37,566	-	-
Due to other funds	157,179	-	-
Due to other governments	1,781	-	-
<b>Total liabilities</b>	<b>751,002</b>	<b>6,264</b>	<b>-</b>
Deferred inflows of resources:			
Unavailable revenue - property taxes	8,569,878	-	4,741,000
Unavailable revenue - tax increment financing	-	4,216,004	-
Unavailable revenue - other	3,846	-	391,963
<b>Total deferred inflows of resources</b>	<b>8,573,724</b>	<b>4,216,004</b>	<b>5,132,963</b>
Fund balances:			
Nonspendable	565,967	-	-
Restricted	-	4,568,935	165,169
Unassigned	5,239,356	-	-
<b>Total fund balances</b>	<b>5,805,323</b>	<b>4,568,935</b>	<b>165,169</b>
<b>Total liabilities, deferred inflows of resources, and fund balances</b>	<b>\$ 15,130,049</b>	<b>\$ 8,791,203</b>	<b>\$ 5,298,132</b>

See Notes to Financial Statements.

	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$	23,296,907	\$ 999,709	\$ 34,647,241
	-	-	55,846
	-	-	13,310,878
	-	-	6,238
	-	-	4,216,004
	35	6,411	236,203
	-	-	391,963
	890	-	2,423
	-	157,179	157,179
	108,156	181,659	380,388
	-	17,217	583,184
<u>\$</u>	<u>23,405,988</u>	<u>\$ 1,362,175</u>	<u>\$ 53,987,547</u>

\$	17,023	\$ 50,045	\$ 278,990
	-	55,476	404,294
	2,186,607	-	2,224,173
	-	-	157,179
	125,968	190	127,939
<u>\$</u>	<u>2,329,598</u>	<u>105,711</u>	<u>3,192,575</u>

	-	-	13,310,878
	-	-	4,216,004
	97,932	-	493,741
<u>\$</u>	<u>97,932</u>	<u>-</u>	<u>18,020,623</u>

	-	17,217	583,184
	20,978,458	1,239,247	26,951,809
	-	-	5,239,356
<u>\$</u>	<u>20,978,458</u>	<u>1,256,464</u>	<u>32,774,349</u>

<u>\$</u>	<u>23,405,988</u>	<u>\$ 1,362,175</u>	<u>\$ 53,987,547</u>
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**City of Johnston, Iowa**

**Reconciliation of Total Governmental Fund Balances to Net Position of Governmental Activities  
June 30, 2015**

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Total governmental fund balances		\$ 32,774,349
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 governmental funds.		123,229,670
Certain revenues are not available to pay for current period expenditures and, therefore, are reported as deferred inflows of resources in the funds.		493,741
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 assets and liabilities of the Internal Service Funds are included in governmental activities in the Statement of Net Position.		504,063
Pension related deferred outflows of resources and deferred inflows of resources are not due and payable in the current year and, therefore, are not reported in the governmental funds, as follows:		
Deferred outflows of resources	\$ 641,628	
Deferred inflows of resources	<u>(1,312,011)</u>	(670,383)
Long-term liabilities, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds		
Bonds and notes payable, net of premiums and discounts	(70,440,062)	
Accrued interest payable	(183,727)	
Compensated absences	(643,239)	
Net pension liability	(1,027,967)	
Other postemployment benefits	<u>(1,487,000)</u>	(73,781,995)
<b>Net position of governmental activities</b>		<u><u>\$ 82,549,445</u></u>

See Notes to Financial Statements.

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City of Johnston, Iowa

**Statement of Revenues, Expenditures and Changes In Fund Balances -  
Governmental Funds  
Year Ended June 30, 2015**

	General Fund	Urban Renewal Tax Increment Financing	Debt Service
<b>Revenues:</b>			
Property tax	\$ 8,198,900	\$ -	\$ 4,544,248
Tax increment financing	-	3,733,446	-
Other city tax	601,136	-	128,652
Licenses and permits	738,567	-	-
Use of money and property	78,997	4,272	2,102
Intergovernmental	459,074	-	75,740
Charges for services	1,080,730	-	-
Special assessments	-	-	15,604
Miscellaneous	76,953	-	29
<b>Total revenues</b>	<b>11,234,357</b>	<b>3,737,718</b>	<b>4,766,375</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Public safety	5,119,532	-	-
Public works	2,140,665	-	-
Health and social services	50,666	-	-
Culture and recreation	2,788,542	-	-
Community development	826,555	2,209,035	-
General government	1,996,381	-	-
Debt service	-	-	6,763,100
Capital outlay	-	-	-
<b>Total expenditures</b>	<b>12,922,341</b>	<b>2,209,035</b>	<b>6,763,100</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(1,687,984)</b>	<b>1,528,683</b>	<b>(1,996,725)</b>
<b>Other financing sources (uses):</b>			
Transfers in	281,911	-	1,872,846
Transfers out	(114,900)	(1,654,885)	-
Proceeds from sale of capital assets	5,025	968,333	-
Issuance of bonds	860,000	-	-
Bond premium, net of discount	29,554	-	-
<b>Total other financing sources (uses)</b>	<b>1,061,590</b>	<b>(686,552)</b>	<b>1,872,846</b>
<b>Net change in fund balances</b>	<b>(626,394)</b>	<b>842,131</b>	<b>(123,879)</b>
Fund balances, beginning of year, as restated	6,431,717	3,726,804	289,048
Fund balances, end of year	<b>\$ 5,805,323</b>	<b>\$ 4,568,935</b>	<b>\$ 165,169</b>

See Notes to Financial Statements.

Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
\$ -	\$ -	\$ 12,743,148
-	-	3,733,446
-	-	729,788
-	24,568	763,135
65,460	1,981	152,812
442,758	1,844,962	2,822,534
-	-	1,080,730
-	-	15,604
131,998	5,125	214,105
640,216	1,876,636	22,255,302
-	16,373	5,135,905
-	1,294,661	3,435,326
-	-	50,666
-	6,208	2,794,750
-	40,587	3,076,177
-	-	1,996,381
-	-	6,763,100
14,570,080	-	14,570,080
14,570,080	1,357,829	37,822,385
(13,929,864)	518,807	(15,567,083)
391,000	34,900	2,580,657
-	(592,911)	(2,362,696)
-	-	973,358
24,330,000	-	25,190,000
764,731	-	794,285
25,485,731	(558,011)	27,175,604
11,555,867	(39,204)	11,608,521
9,422,591	1,295,668	21,165,828
\$ 20,978,458	\$ 1,256,464	\$ 32,774,349

**City of Johnston, Iowa**

**Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balance  
of Governmental Funds to the Statement of Activities  
Year Ended June 30, 2015**

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Net change in fund balances, governmental funds	\$	11,608,521
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:		
Capital outlays	15,239,473	
Depreciation expense	<u>(3,556,091)</u>	11,683,382
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	(973,358)	
Loss on sale of capital assets	<u>(355,930)</u>	(1,329,288)
Change in revenue amounts in the statement of activities that does not provide current financial resources is not reported as revenue in the governmental funds.		493,741
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 and expenditure in the governmental funds, but the repayment reduces long-term liabilities in the Statement of Net Position. Current year issuances exceed repayments, as follows:		
Issued	(25,190,000)	
Repaid	<u>5,116,739</u>	(20,073,261)
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.		(690,181)
Some change in expense amounts 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	(11,544)	
Accrued interest on long-term debt	(57,807)	
Other postemployment benefits	(338,419)	
Pension expense	<u>341,371</u>	(66,399)
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.		<u>(126,388)</u>
<b>Change in net position of governmental activities</b>	<b>\$</b>	<b><u>1,500,127</u></b>

See Notes to Financial Statements.

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City of Johnston, Iowa

Statement of Net Position - Proprietary Funds  
June 30, 2015

	Business-Type	
	Activities	
	Enterprise	
	Water	Sewer
<b>Assets</b>		
Current assets:		
Pooled cash and investments	\$ 3,745,780	\$ 3,921,877
Receivables:		
Customer accounts and unbilled usage	476,414	282,330
Accrued interest	360	850
Due from other governments	10	-
Inventories	253,588	146,440
Prepaid expenses	18,894	18,894
Receivables, special assessments	45,179	187,513
<b>Total current assets</b>	<b>4,540,225</b>	<b>4,557,904</b>
Noncurrent assets:		
Capital assets:		
Land and construction in progress	1,385,131	2,009,076
Buildings and equipment, net	18,138,505	23,927,289
<b>Total capital assets</b>	<b>19,523,636</b>	<b>25,936,365</b>
<b>Total assets</b>	<b>24,063,861</b>	<b>30,494,269</b>
<b>Deferred outflows of resources</b>		
Deferred charge on refunding	-	43,092
Pension related amounts	45,802	45,801
<b>Total deferred outflows of resources</b>	<b>45,802</b>	<b>88,893</b>

(Continued)

Business-Type Activities Enterprise		Governmental Activities
Storm Water	Total	Internal Service
\$ 739,743	\$ 8,407,400	\$ 616,015
77,484	836,228	68,345
-	1,210	-
49,034	49,044	-
-	400,028	-
-	37,788	-
-	232,692	-
866,261	9,964,390	684,360
938,559	4,332,766	-
3,222,128	45,287,922	-
4,160,687	49,620,688	-
5,026,948	59,585,078	684,360
-	43,092	-
-	91,603	-
-	134,695	-

City of Johnston, Iowa

Statement of Net Position - Proprietary Funds (Continued)  
June 30, 2015

	Business-Type	
	Activities	
	Enterprise	
	Water	Sewer
<b>Liabilities</b>		
Current liabilities:		
Accounts payable	\$ 38,804	\$ 55,254
Accrued interest payable	14,096	15,550
Salaries and benefits payable	11,574	11,502
Contracts payables	15,137	11,971
Due to other governments	307,943	-
Compensated absences	23,743	23,743
General obligations bonds payable	475,000	229,904
Customer deposits	8,480	-
Revenue bonds and notes	96,000	313,000
<b>Total current liabilities</b>	<b>990,777</b>	<b>660,924</b>
Noncurrent liabilities:		
General obligation bonds, net of current portion	3,508,502	2,835,531
Revenue bonds and notes, net of current portion	1,872,000	3,455,000
Compensated absences	6,445	6,445
Net pension liability	217,223	217,218
<b>Total noncurrent liabilities</b>	<b>5,604,170</b>	<b>6,514,194</b>
<b>Total liabilities</b>	<b>6,594,947</b>	<b>7,175,118</b>
<b>Deferred inflows of resources</b> , pension related amounts	82,843	82,840
<b>Net position</b>		
Net investment in capital assets	15,508,141	20,410,206
Restricted:		
Improvements	162,986	500,000
Unrestricted	1,760,746	2,414,998
<b>Total net position</b>	<b>\$ 17,431,873</b>	<b>\$ 23,325,204</b>

See Notes to Financial Statements.

Business-Type Activities Enterprise		Governmental Activities
Storm Water	Total	Internal Service
\$ -	\$ 94,058	\$ 180,297
10,209	39,855	-
-	23,076	-
-	27,108	-
1,047	308,990	-
-	47,486	-
195,000	899,904	-
-	8,480	-
-	409,000	-
206,256	1,857,957	180,297
2,904,974	9,249,007	-
-	5,327,000	-
-	12,890	-
-	434,441	-
2,904,974	15,023,338	-
3,111,230	16,881,295	180,297
-	165,683	-
4,105,517	40,023,864	-
-	662,986	-
(2,189,799)	1,985,945	504,063
\$ 1,915,718	\$ 42,672,795	\$ 504,063

City of Johnston, Iowa

Statement of Revenues, Expenditures and Changes in Net Position - Proprietary Funds  
Year Ended June 30, 2015

	Business-Type Activities	
	Enterprise	
	Water	Sewer
Operating revenues:		
Charges for service	\$ 3,710,473	\$ 2,445,881
Miscellaneous	85,807	60,542
Contributions from employees	-	-
Contributions from operating funds	-	-
Service connection fees	100,985	330,003
<b>Total operating revenues</b>	<b>3,897,265</b>	<b>2,836,426</b>
Operating expenses:		
Governmental activities:		
Public safety	-	-
Public works	-	-
Culture and recreation	-	-
Community development	-	-
General government	-	-
Business-type activities:		
Cost of sales and services	3,012,481	1,576,406
Depreciation	584,318	793,379
<b>Total operating expenses</b>	<b>3,596,799</b>	<b>2,369,785</b>
<b>Operating income (loss)</b>	<b>300,466</b>	<b>466,641</b>
Nonoperating revenues (expenses):		
Interest income	8,450	12,007
Interest expense	(156,560)	(226,618)
Intergovernmental	-	-
Gain on the sale of assets	41,430	-
<b>Net nonoperating revenues (expenses)</b>	<b>(106,680)</b>	<b>(214,611)</b>
<b>Income (loss) before contributions and transfers</b>	<b>193,786</b>	<b>252,030</b>
Contributions and transfers:		
Transfers out	(31,014)	(42,016)
Capital contributions	304,680	470,032
<b>Total contributions and transfers</b>	<b>273,666</b>	<b>428,016</b>
<b>Increase (decrease) in net position</b>	<b>467,452</b>	<b>680,046</b>
Net position (deficit), beginning of year, as restated	16,964,421	22,645,158
Net position, end of year	<b>\$ 17,431,873</b>	<b>\$ 23,325,204</b>

See Notes to Financial Statements.

Business-Type Activities		Governmental Activities	
Enterprise			
Storm Water	Total	Internal Service	
\$ 704,514	\$ 6,860,868	\$ -	
-	146,349	-	
-	-	60,454	
-	-	1,125,699	
-	430,988	-	
<u>704,514</u>	<u>7,438,205</u>	<u>1,186,153</u>	
-	-	648,568	
-	-	196,981	
-	-	268,635	
-	-	103,654	
-	-	94,869	
32,262	4,621,149	-	
65,756	1,443,453	-	
<u>98,018</u>	<u>6,064,602</u>	<u>1,312,707</u>	
<u>606,496</u>	<u>1,373,603</u>	<u>(126,554)</u>	
529	20,986	166	
(90,632)	(473,810)	-	
49,034	49,034	-	
-	41,430	-	
<u>(41,069)</u>	<u>(362,360)</u>	<u>166</u>	
<u>565,427</u>	<u>1,011,243</u>	<u>(126,388)</u>	
(144,931)	(217,961)	-	
359,380	1,134,092	-	
<u>214,449</u>	<u>916,131</u>	<u>-</u>	
<u>779,876</u>	<u>1,927,374</u>	<u>(126,388)</u>	
1,135,842	40,745,421	630,451	
<u>\$ 1,915,718</u>	<u>\$ 42,672,795</u>	<u>\$ 504,063</u>	

**City of Johnston, Iowa**

**Statement of Cash Flows  
Proprietary Funds  
Year Ended June 30, 2015**

	Business-Type	
	Activities	
	Enterprise	
	Water	Sewer
Cash flows from operating activities:		
Cash received from customers, users, and employees	\$ 3,823,733	\$ 2,878,599
Cash received from other revenues	85,807	60,542
Cash paid for personal services	(516,787)	(510,534)
Cash paid to suppliers	(2,533,584)	(1,401,432)
<b>Net cash provided by (used in) operating activities</b>	<b>859,169</b>	<b>1,027,175</b>
Cash flows from capital and related financing activities:		
Acquisition of capital assets	(699,246)	(1,638,805)
Proceeds from the sale of capital assets	41,430	-
Bond issuance costs	(27,317)	(18,375)
General obligation bond and note proceeds	1,958,810	1,319,828
Principal paid on revenue bonds and notes	(93,000)	(304,000)
Principal paid on general obligation bonds	(375,000)	(563,261)
Interest paid on revenue bonds and notes	(61,319)	(122,160)
Interest paid on general obligation bonds	(91,343)	(104,118)
<b>Net cash provided by (used in) capital and related financing activities</b>	<b>653,015</b>	<b>(1,430,891)</b>
Cash flows from noncapital financing activities, transfers to other funds	(31,014)	(42,016)
Cash flows from investing activities, interest on investments	8,450	12,007
<b>Net increase (decrease) in cash and cash equivalents</b>	<b>1,489,620</b>	<b>(433,725)</b>
Cash and cash equivalents, beginning of year	2,256,160	4,355,602
Cash and cash equivalents, end of year	<b>\$ 3,745,780</b>	<b>\$ 3,921,877</b>

(Continued)

Business-Type Activities Enterprise		Governmental Activities
Storm Water	Total	Internal Service
\$ 695,058	\$ 7,397,390	\$ 1,119,029
-	146,349	-
-	(1,027,321)	-
(25,254)	(3,960,270)	(1,241,689)
669,804	2,556,148	(122,660)
(3,166,726)	(5,504,777)	-
-	41,430	-
(5,961)	(51,653)	-
432,190	3,710,828	-
-	(397,000)	-
(175,000)	(1,113,261)	-
-	(183,479)	-
(86,412)	(281,873)	-
(3,001,909)	(3,779,785)	-
(144,931)	(217,961)	-
529	20,986	166
(2,476,507)	(1,420,612)	(122,494)
3,216,250	9,828,012	738,509
\$ 739,743	\$ 8,407,400	\$ 616,015

**City of Johnston, Iowa**

**Statement of Cash Flows (Continued)  
Proprietary Funds  
Year Ended June 30, 2015**

	Business-Type Activities	
	Enterprise	
	Water	Sewer
Reconciliation of operating income (loss) to net cash provided by (used in) operating activities:		
Operating income (loss)	\$ 300,466	\$ 466,641
Adjustments to reconcile operating income to net cash provided by (used in) operating activities:		
Depreciation	584,318	793,379
Bond issuance costs	27,317	18,375
Customer accounts and unbilled usage and other accounts receivable	(1,936)	(10,803)
Special assessments receivable	14,211	113,518
Due from other governments	(10)	-
Inventories	(84,103)	(146,440)
Prepaid expenses	(2,839)	(4,318)
Accounts payable	1,289	27,291
Contracts payable	(31,271)	(214,111)
Compensated absences	329	329
Due to other governments	68,084	-
Net pension liability	(85,733)	(85,730)
Deferred outflows of resources	(13,796)	(13,796)
Deferred inflows of resources	82,843	82,840
<b>Net cash provided by (used in) operating activities</b>	<b>\$ 859,169</b>	<b>\$ 1,027,175</b>
Reconciliation of cash and cash equivalents at year end to specific assets included on the statement of net position, current assets, cash and investments	<b>\$ 3,745,780</b>	<b>\$ 3,921,877</b>
Schedule of noncash items:		
Capital and related financing activities, capital contributions for capital assets	\$ 304,680	\$ 470,032

See Notes to Financial Statements.

Business-Type Activities		Governmental Activities
Enterprise		
Nonmajor Storm Water	Total	Internal Service
\$ 606,496	\$ 1,373,603	\$ (126,554)
65,756	1,443,453	-
5,961	51,653	-
(9,456)	(22,195)	(70,106)
-	127,729	-
-	(10)	-
-	(230,543)	-
-	(7,157)	-
-	28,580	74,000
-	(245,382)	-
-	658	-
1,047	69,131	-
-	(171,463)	-
-	(27,592)	-
-	165,683	-
<u>\$ 669,804</u>	<u>\$ 2,556,148</u>	<u>\$ (122,660)</u>

\$ 739,743    \$ 8,407,400    \$ 616,015

\$ 359,380    \$ 1,134,092    \$ -

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## City of Johnston, Iowa

### Notes to Financial Statements

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#### 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, sewer utilities and stormwater.

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.

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).

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.

## City of Johnston, Iowa

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

##### Basis of presentation:

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. General operating expenditures, the fixed charges and the capital improvement costs not paid from other funds are paid from the General Fund.

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.

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.

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

Additionally, the City reports the following proprietary funds:

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.

**Note 1. Summary of Significant Accounting Policies (Continued)**

**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, compensated absences, pension and OPEB 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 positions 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.

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.

## City of Johnston, Iowa

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

Assets, Deferred Outflows of Resources, Liabilities, Deferred Inflows of Resources and Fund Balances:  
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, 2015 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 percent per month penalty for delinquent payments; is based on January 1, 2013 assessed property valuations; is for the tax accrual period July 1, 2014 through June 30, 2015 and reflects tax asking contained in the budget certified to the County Board of Supervisors in March 2014.

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 or 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. Accounts receivable are presented net of an allowance for uncollectibles.

City of Johnston, Iowa

Notes to Financial Statements

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**Note 1. Summary of Significant Accounting Policies (Continued)**

Interfund receivables/payables: During the course of operations, numerous transactions occur between individual funds for goods provided or services rendered. To the extent that certain transfers between funds had not been received as of June 30, 2015, balances of interfund amounts receivable or payable have been recorded. These receivables and payables are classified as “due from other funds” or “due to other funds” on the balance sheet.

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.

Due to other governments: Due to other governments represents taxes and other revenues collected by the City and payments for services which will be remitted to other governments.

Capital assets: Capital assets, which include property, equipment and vehicles and infrastructure assets acquired after 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.

Asset Class	<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:

Asset Class	<u>Estimated Useful Lives</u>
Buildings	10-50 years
Improvements other than buildings	10-50 years
Vehicles	5-15 years
Equipment	5-20 years
Infrastructure	20-50 years

Compensated absences: City employees accumulate a limited amount of earned but unused paid time off 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, 2015. The compensated absences liability attributable to the governmental activities will be paid primarily by the General Fund.

**Note 1. Summary of Significant Accounting Policies (Continued)**

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. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

Pensions: For government-wide and proprietary funds the net pension liability, deferred outflows and inflows of resources related to pensions, pension expense, information about the fiduciary net position of the Iowa Public Employees' Retirement System (IPERS) and additions to/deductions from IPERS' fiduciary net position have been determined on the same basis as they are reported by IPERS. For this purpose, benefit payments (including refunds of employee contributions) are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value. For governmental funds amounts are reported as expense when paid.

Deferred inflows of resources: In addition to liabilities, the statement of net position and balance sheet will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time. The governmental funds report unavailable revenues from three sources: property taxes, special assessments and intergovernmental revenue. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available.

In the City's government-wide statements, the property tax revenues remain under the modified accrual basis of accounting and will become an inflow in the year for which the taxes are levied and budgeted for. The City's government-wide statements also include pension related deferred inflows, which are the unamortized portion of the difference between expected and actual experience, changes in assumptions and the change in proportion and differences between the City's contributions and proportionate share of contributions all related to net pension liability.

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 two items that qualified for reporting in this category. The first is the deferred charge on refunding, which 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. The second deferred outflow item is pension related deferred outflows, which consist of unrecognized items not yet charged to pension expense related to the net pension liability and contributions paid by the employer after the measurement date but before the end of the employer's reporting period. Both of these deferred outflow items are reported in the government-wide and proprietary fund statements of net position.

## City of Johnston, Iowa

### Notes to Financial Statements

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#### Note 1. Summary of Significant Accounting Policies (Continued)

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. The General Fund is the only fund that would report a positive amount in unassigned fund balance. Residual deficit amounts of other governmental funds would also be reported as unassigned.

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

Net position: Represents the difference between assets plus deferred outflows of resources and liabilities plus deferred inflows of resources. Net investment in capital assets consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net investment in capital assets excludes unspent debt proceeds. Unspent proceeds was \$17,367,715 for the capital project fund, \$1,936,007 for the water fund, \$1,307,276 for the sewer fund and \$3,044,804 for the stormwater fund. Net position is reported as restricted when there are limitations imposed on their use through enabling legislation or through external restrictions imposed by creditors, grantors or laws through constitutional provision or enabling legislation.

Net position restricted through legislation consists of \$4,550,377 for debt service.

The City first applies restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net position is available.

Budgets and budgetary accounting: The budgetary comparison and related disclosures are reported as required supplementary information.

#### Note 2. Cash and Pooled Investments

Authorized deposits and investments: The City is authorized by state statute to invest public funds in interest bearing savings accounts, interest bearing money market accounts, interest bearing checking accounts, obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured Iowa depository institutions approved by the City Council and the Treasurer of the State of Iowa; Iowa Public Agency Investment Trust, prime bankers acceptances that mature within 270 days of purchase; commercial paper or other short-term corporate debt that matures within 270 days of purchase and is rated within the two highest classifications; perfected repurchase agreements; and certain registered investment open-end management investment companies.

## City of Johnston, Iowa

### Notes to Financial Statements

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#### Note 2. Cash and Pooled Investments (Continued)

Investments are reported at fair value except for the City's investment in the Iowa Public Agency Investment Trust. The Iowa Public Agency Trust is a common law trust established by Iowa code law and is administered by an appointed investment management company. The Pool operates in conformity with all of the requirements of the Securities and Exchange Commission's (SEC) Rule 2a7 as promulgated under the Investment Act of 1940, as amended. Accordingly, the Pool qualifies as a 2a7 like pool and is reported at amortized cost.

Interest rate risk: Interest rate risk is the risk that changes in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment the greater the sensitivity of its fair value to changes in market interest rates. 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) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and use of the City.

Credit risk: Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally statistical rating organization. The City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$18,219,105 pursuant to Rule 2a-7 under the Investment Company Act of 1940. The City's investment in the Iowa Public Agency Investment Trust are unrated.

Custodial credit risk: Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, the City will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction, a government will not be able to recover the value of investment or collateral securities that are in the possession of an outside party. Chapter 12c of the Code of Iowa requires all City funds be deposited into an approved depository and be either insured or collateralized. As of June 30, 2015, the City's deposits with financial institutions were entirely covered by federal depository insurance or insured by the state through pooled collateral, state sinking funds and by the state's ability to assess for lost funds.

A reconciliation of cash and investments as shown on the financial statements for the City follows:

Depository accounts	\$ 25,451,551
Iowa Public Agency Investment Trust	18,219,105
	<hr/>
	\$ 43,670,656
	<hr/>

**City of Johnston, Iowa**

**Notes to Financial Statements**

**Note 3. Capital Assets**

Capital assets activity for the year ended June 30, 2015 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 5,768,609	\$ -	\$ (935,427)	\$ 4,833,182
Construction in progress, roads	6,144,774	12,654,160	(1,430,296)	17,368,638
Construction in progress, other	12,061,045	760,629	(12,624,776)	196,898
<b>Total capital assets not being depreciated</b>	<b>23,974,428</b>	<b>13,414,789</b>	<b>(14,990,499)</b>	<b>22,398,718</b>
Capital assets being depreciated:				
Buildings	9,568,139	12,549,570	(563,000)	21,554,709
Improvements, other than buildings	2,514,066	75,206	-	2,589,272
Equipment and vehicles	8,431,812	798,024	(142,153)	9,087,683
Infrastructure, roads	99,601,954	2,456,956	-	102,058,910
Infrastructure, other	663,611	-	-	663,611
<b>Total capital assets being depreciated</b>	<b>120,779,582</b>	<b>15,879,756</b>	<b>(705,153)</b>	<b>135,954,185</b>
Less accumulated depreciation for:				
Buildings	2,743,839	459,527	(211,125)	2,992,241
Improvements, other than buildings	483,840	264,057	-	747,897
Equipment and vehicles	4,443,427	742,944	(100,167)	5,086,204
Infrastructure, roads	23,718,998	2,059,097	-	25,778,095
Infrastructure, other	488,330	30,466	-	518,796
<b>Total accumulated depreciation</b>	<b>31,878,434</b>	<b>3,556,091</b>	<b>(311,292)</b>	<b>35,123,233</b>
<b>Total capital assets being depreciated, net</b>	<b>88,901,148</b>	<b>12,323,665</b>	<b>(393,861)</b>	<b>100,830,952</b>
<b>Governmental activities capital assets, net</b>	<b>\$ 112,875,576</b>	<b>\$ 25,738,454</b>	<b>\$ (15,384,360)</b>	<b>\$ 123,229,670</b>

City of Johnston, Iowa

Notes to Financial Statements

Note 3. Capital Assets (Continued)

	Beginning Balance	Increases	Decreases	Ending Balance
Business-type activities:				
Capital assets not being depreciated:				
Land	\$ 269,171	\$ -	\$ -	\$ 269,171
Construction in progress	2,872,947	5,292,608	(4,101,960)	4,063,595
<b>Total capital assets not being depreciated</b>	<b>3,142,118</b>	<b>5,292,608</b>	<b>(4,101,960)</b>	<b>4,332,766</b>
Capital assets being depreciated:				
Equipment and vehicles	706,046	212,171	-	918,217
Infrastructure, water and sewer	53,385,070	5,236,050	-	58,621,120
<b>Total capital assets being depreciated</b>	<b>54,091,116</b>	<b>5,448,221</b>	<b>-</b>	<b>59,539,337</b>
Less accumulated depreciation for:				
Equipment and vehicles	443,801	99,935	-	543,736
Infrastructure, water and sewer	12,364,161	1,343,518	-	13,707,679
<b>Total accumulated depreciation</b>	<b>12,807,962</b>	<b>1,443,453</b>	<b>-</b>	<b>14,251,415</b>
<b>Total capital assets being depreciated, net</b>	<b>41,283,154</b>	<b>4,004,768</b>	<b>-</b>	<b>45,287,922</b>
<b>Business-type activities capital assets, net</b>	<b>\$ 44,425,272</b>	<b>\$ 9,297,376</b>	<b>\$ (4,101,960)</b>	<b>\$ 49,620,688</b>

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

	Governmental Activities	Business-Type Activities
Public safety	\$ 573,067	\$ -
Public works	2,443,549	-
Culture and recreation	497,520	-
Community development	13,794	-
General government	28,161	-
Water	-	584,318
Sewer	-	793,379
Storm water	-	65,756
<b>Total depreciation expense</b>	<b>\$ 3,556,091</b>	<b>\$ 1,443,453</b>

**City of Johnston, Iowa**

**Notes to Financial Statements**

**Note 4. Long-Term Liabilities**

A summary of changes in long-term liabilities for the year ended June 30, 2015 is as follows:

	Beginning Balance, as restated	Increases	Decreases	Ending Balance		Due within One Year
<b>Governmental activities:</b>						
General obligation bonds	\$ 49,676,620	\$ 25,984,285	\$ (5,220,843)	\$ 70,440,062	(1)	\$ 4,885,096
Compensated absences	631,695	630,655	(619,111)	643,239		619,111
Net OPEB liability	1,148,581	360,419	(22,000)	1,487,000		-
Net pension liability	2,546,586	-	(1,518,619)	1,027,967		-
	<u>54,003,482</u>	<u>26,975,359</u>	<u>(7,380,573)</u>	<u>73,598,268</u>		<u>5,504,207</u>
<b>Business-type activities:</b>						
General obligation bonds	7,561,159	3,710,829	(1,123,077)	10,148,911	(2)	899,904
Revenue bonds	6,133,000	-	(397,000)	5,736,000		409,000
Compensated absences	59,718	48,142	(47,484)	60,376		47,486
Net pension liability	605,904	-	(171,463)	434,441		-
	<u>14,359,781</u>	<u>3,758,971</u>	<u>(1,739,024)</u>	<u>16,379,728</u>		<u>1,356,390</u>
<b>Total long-term debt</b>	<u>\$ 68,363,263</u>	<u>\$ 30,734,330</u>	<u>\$ (9,119,597)</u>	<u>\$ 89,977,996</u>		<u>\$ 6,860,597</u>

1. Bonds were sold at a premium; unamortized premium at June 30, 2015 totaled \$1,801,111. Bonds were sold at a discount; unamortized discount at June 30, 2015 totaled \$43,391.
2. Bonds were sold at a premium; unamortized premium at June 30, 2015 totaled \$233,549. Bonds were sold at a discount; unamortized discount at June 30, 2015 totaled \$12,296.

**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 \$68,682,342 net premiums and discounts at June 30, 2015.

Details of general obligation bonds/notes payable at June 30, 2015 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2015
Essential Corporate Purpose 2007B	08/01/2007	4.25-4.75%	6/1/2022	320,000 - 430,000	4,635,000	\$ 2,650,000
2009A Refund Capital Loan Notes	03/01/2009	2.10-2.70%	6/1/2016	185,000	2,345,000	185,000
2009B Capital Loan Notes Refunding	03/01/2009	2.10-2.70%	6/1/2016	310,000 - 315,000	1,765,000	315,000
2010A Capital Loan Notes Refunding	03/01/2010	2.00-3.00%	6/1/2017	385,000 - 410,000	2,610,000	805,000
Corporate Purpose 2010B	12/01/2010	1.75-3.50%	6/1/2026	65,000 - 75,000	970,000	755,000
Corporate Purpose 2011B	04/01/2011	1.38-4.20%	6/1/2021	175,000 - 210,000	1,850,000	1,165,000
2011C General Obligation Bonds	11/15/2011	1.00-3.50%	6/1/2031	390,000 - 575,000	8,570,000	7,410,000
2012A General Obligation Bonds	11/15/2012	0.35-2.40%	6/1/2032	370,000 - 700,000	9,190,000	8,090,000
2013A G.O. Refunding Bonds	07/01/2013	2.50-5.00%	6/1/2028	45,000 - 1,320,580	10,926,000	8,607,342
2013B General Obligation Bonds	11/01/2013	2.0-4.125%	6/1/2033	620,000 - 990,000	14,420,000	13,510,000
2014A G.O. Capital Loan Notes	08/14/2014	2.00-4.00%	6/1/2029	360,000 - 505,000	5,915,000	5,915,000
2015A General Obligation Bonds	04/07/2015	2.25-5.00%	6/1/2034	460,000 - 1,440,000	19,275,000	19,275,000
<b>Total governmental activities</b>						<u>\$ 68,682,342</u>

## City of Johnston, Iowa

### Notes to Financial Statements

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#### Note 4. Long-Term Liabilities (Continued)

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

	Principal	Interest	Total
2016	\$ 4,885,096	\$ 2,204,728	\$ 7,089,824
2017	4,659,686	2,000,810	6,660,496
2018	4,442,222	1,853,210	6,295,432
2019	4,565,580	1,722,056	6,287,636
2020	4,684,348	1,561,215	6,245,563
2021-2025	18,435,410	5,887,459	24,322,869
2026-2030	17,030,000	3,315,991	20,345,991
2031-2034	9,980,000	740,750	10,720,750
	<u>\$ 68,682,342</u>	<u>\$ 19,286,219</u>	<u>\$ 87,968,561</u>

General obligation bonds/notes: On August 14, 2014 the City issued \$7,800,000 of general obligation capital loan notes with interest rates ranging from 2.0-4.0 percent, at a premium of \$311,362 for the purpose of financing the various improvements throughout the City.

On April 7, 2015, the City issued \$20,975,000 of general obligation bonds with interest rates ranging from 2.25-4.00 percent, at a premium of \$680,750 for the purpose of financing the various improvements throughout the City and currently refunding the General Obligation Bonds Series 2005C. As a result of the refunding, the City reduced its debt service requirements by \$25,763 for a present value savings of \$23,857.

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 percent per annum. The agreement also requires the City to annually pay a .25 percent 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 \$154,000, with the final maturity due in the year ending June 30, 2031.

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 \$2,509,590. For the current year, principal and interest paid and total customer net revenues were \$154,830 and \$1,301,330, respectively. Total customer net revenues are defined for this purpose as operating income adding back depreciation and debt service payments.

**City of Johnston, Iowa**

**Notes to Financial Statements**

**Note 4. Long-Term Liabilities (Continued)**

Two issues of unmatured sewer revenue bonds, totaling \$3,768,000, are outstanding at June 30, 2015. These bonds bear interest at 1.75-3.00 percent 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 \$4,300,705. For the current year, principal and interest paid and total customer net revenues were \$426,160 and \$2,004,043, respectively. Total customer net revenues are defined for this purpose as operating income adding back depreciation.

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:

1. 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.
2. 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.
3. Water and sewer user rates shall be established at a level which produces and maintains net revenues at a level not less than 125 percent and 110 percent, 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, 2015 are as follows:

Obligation	Date of Issue	Interest Rates	Final Due Date	Annual Payments	Amount Originally Issued	Outstanding June 30, 2015
<b>General Obligation Bonds/Notes:</b>						
2011A Refunding Bonds	3/1/2011	1.00 - 2.85%	6/1/202	375,000 - 435,000	\$ 3,240,000	\$ 2,040,000
2013A G.O. Refunding	7/1/2013	2.00 - 5.00%	6/1/2028	60,000 - 140,000	1,214,000	1,097,658
2013B General Obligation	11/1/2013	2.00 - 4.13%	6/1/2028	215,000 - 300,000	3,675,000	3,205,000
2014A G.O. Capital Loan Notes	08/14/2014	2.00 - 4.00%	6/1/2034	80,000 - 130,000	1,885,000	1,885,000
2015A General Obligation	04/07/2015	2.25 - 5.00%	6/1/2030	85,000 - 110,000	1,700,000	1,700,000
						9,927,658
<b>Revenue Bonds/Notes:</b>						
Water Capital Loan Notes	8/5/2009	3.00%	6/1/2031	93,000 - 154,000	2,362,000	1,968,000
2005A Sewer Revenue Bonds	5/17/2005	1.75%	6/1/2025	172,000 - 231,000	3,535,000	2,026,000
2006A Sewer Revenue Bonds	5/1/2006	3.00%	6/1/2026	132,000 - 183,000	2,800,000	1,742,000
						5,736,000
<b>Total business-type activities</b>						<b>\$ 15,663,658</b>

**City of Johnston, Iowa**

**Notes to Financial Statements**

**Note 4. Long-Term Liabilities (Continued)**

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

	General Obligation Bonds			Revenue Bonds		
	Principal	Interest	Total	Principal	Interest	Total
2016	\$ 899,904	\$ 309,601	\$ 1,209,505	\$ 409,000	\$ 146,755	\$ 555,755
2017	925,314	282,435	1,207,749	421,000	136,698	557,698
2018	942,778	256,531	1,199,309	433,000	126,343	559,343
2019	964,420	229,774	1,194,194	447,000	115,690	562,690
2020	1,000,652	199,308	1,199,960	461,000	104,693	565,693
2021-2025	2,529,590	702,602	3,232,192	2,525,000	346,288	2,871,288
2026-2030	2,170,000	293,931	2,463,931	886,000	93,210	979,210
2031-2034	495,000	50,200	545,200	154,000	4,620	158,620
	<u>\$ 9,927,658</u>	<u>\$ 2,324,382</u>	<u>\$ 12,252,040</u>	<u>\$ 5,736,000</u>	<u>\$ 1,074,297</u>	<u>\$ 6,810,297</u>

As of June 30, 2015, the general obligation debt issued by the City did not exceed its legal debt margin computed as follows:

Actual valuation	<u>\$ 2,051,923,053</u>
Debt limit - 5% of total actual valuation	\$ 102,596,153
Debt applicable to debt limit	
General obligation debt outstanding	<u>78,610,000</u>
Legal debt margin	<u>\$ 23,986,153</u>
Percentage of debt limit	76.62%

**Note 5. Joint Venture and Commitments**

The City is a participating community in the Des Moines Metropolitan Wastewater Reclamation Authority (WRA) joint venture. This joint venture provides primary and secondary treatment of the sewer flows of the participating communities.

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 would be paid. Since there is not specific and measurable equity interest in the WRA no investment in the joint venture is reported by the City. The City does retain a reversionary interest percentage in the net position of the WRA that would only be redeemed in the event the WRA is dissolved.

**City of Johnston, Iowa**

**Notes to Financial Statements**

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**Note 5. Joint Venture and Commitments (Continued)**

Although 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 entity was a participating community are still outstanding. 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 of wastewater reclamation flows. The allocation to all participating communities is based on operations, maintenance, debt service and reserve requirements. Allocations are based on wastewater reclamation facility flows and adjusted prospectively for differences in budgeted flows and actual flows. As of June 30, 2015, the City has a future commitment for approximately \$3,970,000 for future principal payment requirements payable through the allocation of wastewater reclamation flows.

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

**Note 6. Interfund Receivables and Payables**

The individual fund interfund receivable and payable balances include Due to/from Other Funds. These balances at June 30, 2015 were:

	Interfund Receivable	Interfund Payable
General Fund	\$ -	\$ 157,179
Road use tax, nonmajor special revenue	157,179	-
<b>Total</b>	<b>\$ 157,179</b>	<b>\$ 157,179</b>

Interfund balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

**City of Johnston, Iowa**

**Notes to Financial Statements**

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**Note 7. Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2015 is as follows:

<u>Transfers In</u>	<u>Transfers Out</u>	<u>Amount</u>
General	Special revenue, nonmajor	
	Library	\$ 24,000
	Road use tax	<u>257,911</u>
		281,911
Special revenue, nonmajor		
Community Improvement	General	30,000
Senior Citizens	General	<u>4,900</u>
		34,900
Debt service	Special revenue, major	
	Urban renewal tax increment financing	1,654,885
	Water	31,014
	Sewer	42,016
	Storm water	<u>144,931</u>
		1,872,846
Capital projects	General	80,000
	Special revenue, nonmajor	
	road use tax	<u>311,000</u>
		<u>391,000</u>
<b>Total</b>		<u><u>\$ 2,580,657</u></u>

Transfers are used to (1) move resources from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources or (2) use unrestricted revenues collected in the general fund to finance various programs accounted for in other governmental and proprietary funds in accordance with budgetary authorizations.

**Note 8. Development Agreements and Commitments**

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 \$21,839,531 of incremental tax under the agreements. The outstanding balance of the agreements at June 30, 2015 was \$17,912,654.

**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, 2015, the City had loaned \$259,210 under the agreements and forgiven \$99,598 of the loans, leaving a balance of \$159,612. These loans are not recorded as the City has determined the full amount of the loans are allowed for as uncollectible as even if the forgiveness conditions are not met it is unlikely the City will collect.

**Note 10. Pension and Retirement Benefits**

**Plan description:** Employees of the City are provided with pensions through the Iowa Public Employees Retirement System (IPERS)—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.

**Benefits provided:** IPERS provides retirement, disability and death benefits. Retirement benefits for regular members are determined based on the employee's highest five-year average salary and a multiplier based on the years of service. Retirement benefits for protection occupations are determined based 60 percent of average salary after 22 years of service, plus an additional 1.5 percent of average salary for years of service greater than 22 but not more than 30 years of service, and the member's highest three year average salary. Regular members are eligible for full retirement age 65; at age 62 with at least 20 years of covered employment or when the years of service plus the employee's age equals or exceeds 88. Protection occupation members may retire at normal retirement age, which is generally at age 55. Four years of service is required for nonservice-related disability eligibility. Disability benefits are determined in the same manner as retirement benefits but are payable immediately without an actuarial reduction. Death benefits are calculated based on the actuarial present value of the employee's accrued benefit at the time of death or a calculation based on the employee's contributions, highest covered annual wage and years of service.

**Contributions:** Per Iowa Code Section 97B.4(4)(d) the required contribution rate is determined by the IPERS actuary as the rate necessary to fully fund the benefits as defined by Iowa Code Chapter 97B. For 2015, regular members were required 5.95 percent of pay and the City was required to contribute 8.93 percent for a total rate of 14.88 percent. Protective occupation members were required to contribute 6.76 percent of pay, and the City was required to contribute 10.14 percent for a total rate of 16.80 percent. These rates are actuarially determined as an amount that, when combined with employee contributions, is expected to finance the costs of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability. Contributions to the pension plan from the City were \$594,760 for the year ended June 30, 2015.

City of Johnston, Iowa

Notes to Financial Statements

**Note 10. Pension and Retirement Benefits (Continued)**

**Pension liabilities, pension expense, and deferred inflows and outflows of resources related to pensions:** At June 30, 2015, the City reported a liability of \$1,462,408 for its proportionate share of the net pension liability. The net pension liability was measured as of June 30, 2014, and the total pension liability used to calculate the net pension liability was determined by an actuarial valuation as of that date. The City's proportion of the net pension liability was based on a projection of the City's long-term share of contributions to the pension plan relative to the projected contributions of all participating governments, actuarially determined. At June 30, 2014, the City's proportion was 0.0368745 percent.

For the year ended June 30, 2015, the City recognized pension expense of \$220,018. At June 30, 2015, the City reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	Deferred Outflows of Resources	Deferred Inflows of Resources
Differences between expected and actual experience	\$ 22,758	\$ (56,898)
Changes of assumptions	92,415	(1,358)
Net difference between projected and actual earnings on pension plan investments	-	(1,419,438)
Changes in proportion and differences between City contributions and proportionate share of contributions	23,297	-
<b>Total deferred amounts to be recognized in pension expense in future periods</b>	<b>138,470</b>	<b>(1,477,694)</b>
City contributions subsequent to the measurement date	594,761	-
<b>Total deferred amounts related to pensions</b>	<b>\$ 733,231</b>	<b>\$ (1,477,694)</b>

\$594,761 reported as deferred outflows of resources related to pensions resulting from City contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability in the year ended June 30, 2016. Other amounts reported as deferred outflows of resources and deferred inflows of resources related to pensions will be recognized in pension expense over the average remaining service life of all system members of 5.28 years or 5 years as follows:

<u>Year Ended June 30:</u>	Deferred Outflows of Resources	Deferred Inflows of Resources
2016	\$ 32,353	\$ (368,471)
2017	32,353	(368,471)
2018	32,353	(368,471)
2019	32,353	(368,471)
2020	9,058	(3,810)
	<b>\$ 138,470</b>	<b>\$ (1,477,694)</b>

City of Johnston, Iowa

Notes to Financial Statements

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**Note 10. Pension and Retirement Benefits (Continued)**

**Actuarial assumptions:** The total pension liability was determined by an actuarial valuation as of June 30, 2014, using the following actuarial assumptions, applied to all periods included in the measurement:

Inflation	3.00 percent
Salary increases	4.00 to 17.00 percent, average, including inflation.
Investment rate of return	7.50 percent, net of pension plan investment expense, including inflation

Mortality rates were based on the RP-2000 Combined Mortality Table for Males or Females, as appropriate, with adjustments for mortality improvements based on Scale AA.

Subsequent to the actuarial valuation date used by the Plan, the Society of Actuaries issued updated mortality scales and mortality improvement scales, MP2014 and MP-15. These scales may increase the total pension liability unless the plan experience indicates otherwise. The City has not been provided the impact of these scales but believes the updated scales, if determined appropriate for the plan, will have a material impact on the City's net pension obligation.

The actuarial assumptions used in the June 30, 2014 valuation were based on the results of an actuarial experience study for the four-year period ending June 30, 2013.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best-estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

Asset Class	Asset Allocation	Long-Term Expected Rate of Return
U.S. equity	23%	6.31%
Non U.S. equity	15	6.76
Private equity	13	11.34
Real estate	8	3.52
Core plus fixed income	28	2.06
Credit opportunities	5	3.67
TIPS	5	1.92
Other real assets	2	6.27
Cash	1	(0.69)
	<u>100%</u>	

**City of Johnston, Iowa**

**Notes to Financial Statements**

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**Note 10. Pension and Retirement Benefits (Continued)**

**Discount rate:** The discount rate used to measure the total pension liability was 7.50 percent. The projection of cash flows used to determine the discount rate assumed that employee contributions will be made at the current contribution rate and that contributions from cities will be made at contractually required rates, actuarially determined. Based on those assumptions, the pension plan's fiduciary net position was projected to be available to make all projected future benefit payments of current active and inactive employees. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the total pension liability.

**Sensitivity of the City's proportionate share of the net pension liability to changes in the discount rate:** The following presents the City's proportionate share of the net pension liability calculated using the discount rate of 7.50 percent, as well as what the City's proportionate share of the net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (6.50 percent) or 1-percentage-point higher (8.50 percent) than the current rate:

	1% Decrease (6.50%)	Discount Rate (7.50 %)	1% Increase (8.50 %)
City's proportionate share of the net pension liability (asset)	\$ 4,622,539	\$ 1,462,408	\$ (1,203,169)

**Pension plan fiduciary net position.** Detailed information about the pension plan's fiduciary net position is available in the separately issued IPERS financial report; which can be located at [www.ipers.org](http://www.ipers.org).

**Note 11. Other Postemployment 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 percent of the full active employee premium rates. This results in an implicit subsidy and an Other Postemployment 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.

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, 2015, the amount actually contributed to the plan and changes in the City's net OPEB obligation:

Annual required contribution, ARC	\$ 355,000
Interest on net OPEB obligation	52,419
Adjustment to annual required contribution	(47,000)
Annual OPEB cost	<u>360,419</u>
Contributions made	<u>22,000</u>
Increase in net OPEB obligation	338,419
Net OPEB obligation, beginning of year	<u>1,148,581</u>
Net OPEB obligation, end of year	<u><u>\$ 1,487,000</u></u>

## City of Johnston, Iowa

### Notes to Financial Statements

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#### Note 11. Other Postemployment Benefits (OPEB) (Continued)

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, 2015.

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, 2015 are summarized as follows:

Fiscal year ended	Annual OPEB Cost	Percentage of Annual OPEB Cost Contributed	Net OPEB Obligation
June 30, 2013	\$ 219,549	0.00%	\$ 928,435
June 30, 2014	220,146	0.00%	1,148,581
June 30, 2015	360,419	6.10%	1,487,000

As of July 1, 2014, the most recent actuarial valuation date for the period July 1, 2014 through June 30, 2015, the actuarial accrued liability was \$2,533,000 with no actuarial value of assets, resulting in an unfunded actuarial accrued liability, UAAL, of \$2,533,000. The covered payroll (annual payroll of active employees covered by the plan) was approximately \$5,545,000, and the ratio of the UAAL to the covered payroll was 45.7 percent. As of June 30, 2015, 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.

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.

As of the July 1, 2014 actuarial valuation date, the unit credit actuarial cost method was used. The actuarial assumptions include a 4.5 percent discount rate based on the City's funding policy. The projected annual medical trend rate is 9 percent. The ultimate medical trend rate is 5 percent. The medical trend rate is reduced 0.5 percent each year until reaching the 5 percent ultimate trend rate.

Mortality rates are from the RP-2014 projected to 2025 using Scale MP-14, 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 \$1,122 and \$753 for retirees over 65. The salary increase rate was assumed to be 3 percent per year. The UAAL is being amortized as a level dollar amount on an open basis over a period of 30 years.

## City of Johnston, Iowa

### Notes to Financial Statements

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#### 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 \$1,690,000 is outstanding at June 30, 2015. 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: The City operates a 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. The City pays 100 percent of the employee's coverage and 90 percent of spousal and family care. The City has a 3 year service agreement with Frank Berlin & Associates, expiring June 30, 2016. The uninsured risk retention per person is \$35,000 and not to exceed 125 percent of expected claims. Additionally, the City has purchased commercial stop-loss insurance to provide for claims in excess of \$35,000 to reduce their exposure to large losses.

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, 2015 was \$1,125,699.

Amounts payable from the Health Deductible Claims Fund as of June 30, 2015, totaled \$175,000 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. There were no settlements for amount exceeding the stop-loss coverage in the years ended June 30, 2015, 2014, and 2013. Information on changes in the aggregate liabilities for claims is as follows:

	2015	2014
Claims payable, beginning of year	\$ 101,000	\$ 1,983
Claims recognized	1,255,240	981,194
Claims payments	(1,181,240)	(882,177)
Claims payable, end of year	<u>\$ 175,000</u>	<u>\$ 101,000</u>

**City of Johnston, Iowa**

**Notes to Financial Statements**

**Note 14. Contractual Commitments**

The City has entered into construction contracts totaling approximately \$34,763,000 for construction projects. As of June 30, 2015, costs of approximately \$27,846,000 have been incurred on the projects. The balance on the contracts of approximately \$6,917,000 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. As of June 30, 2015, costs of approximately \$960,000 have been incurred on the projects. The balance on the contracts of approximately \$1,720,000 will be paid as work on the projects progresses.

**Note 15. Fund Balances**

GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, establishes criteria for classifying fund balances into specifically defined classifications and clarifies definitions for governmental fund types. The details for the City's fund balances are as follows:

	General Fund	Urban Renewal Tax Increment Financing	Debt Service	Capital Projects	Nonmajor Governmental Funds	Total Governmental Funds
Nonspendable, prepaids	\$ 565,967	\$ -	\$ -	\$ -	\$ 17,217	\$ 583,184
Restricted:						
Capital projects	-	-	-	20,978,458	-	20,978,458
Debt service	-	4,568,935	165,169	-	-	4,734,104
Roads	-	-	-	-	919,268	919,268
Police	-	-	-	-	57,886	57,886
Culture and recreation	-	-	-	-	220,842	220,842
Community development	-	-	-	-	41,251	41,251
<b>Total Restricted</b>	-	4,568,935	165,169	20,978,458	1,239,247	26,951,809
Unassigned	5,239,356	-	-	-	-	5,239,356
<b>Total Fund Balance</b>	<b>\$ 5,805,323</b>	<b>\$ 4,568,935</b>	<b>\$ 165,169</b>	<b>\$ 20,978,458</b>	<b>\$ 1,256,464</b>	<b>\$ 32,774,349</b>

**Note 16. 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. 72, *Fair Value Measurement and Application*, issued February 2015, will be effective for the City with its year ending June 30, 2016. This Statement defines fair value and describes how fair value should be measured, what assets and liabilities should be measured at fair value, and what information about fair value should be disclosed in the notes to the financial statements. This Statement defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. Investments, which generally are measured at fair value, are defined as a security or other asset that governments hold primarily for the purpose of income or profit and the present service capacity of which are based solely on their ability to generate cash or to be sold to generate cash. The related disclosures have been expanded to categorize fair values according to their relative reliability and to describe positions held in many alternative investments.

GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, issued in June 2015, will be effective for the City beginning with its fiscal year ending June 30, 2018. The Statement replaces the requirements of GASB Statement No. 45, *Accounting and Financial Reporting by Employers for Postemployment Benefits Other Than Pensions* and requires governments to report a liability on the face of the financial statements for the OPEB they provide and outlines the reporting requirements by governments for defined benefit OPEB plans administered through a trust, cost-sharing OPEB plans administered through a trust and OPEB not provided through a trust. The Statement also requires governments to present more extensive note disclosures and required supplementary information about their OPEB liabilities. Some governments are legally responsible to make contributions directly to an OPEB plan or make benefit payments directly as OPEB comes due for employees of other governments. In certain circumstances, called special funding situations, the Statement requires these governments to recognize in their financial statements a share of the other government's net OPEB liability.

GASB Statement No. 76, *The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments*, issued July 2015, will be effective for the City beginning with its fiscal year ending June 30, 2016. This statement reduces the GAAP hierarchy to two categories of authoritative GAAP from the four categories under GASB Statement No. 55. The first category of authoritative GAAP consists of GASB Statements of *Governmental Accounting Standards*. The second category comprises GASB Technical Bulletins and Implementation Guides, as well as guidance from the AICPA that is cleared by the GASB. The Statement also addresses the use of authoritative and nonauthoritative literature in the event that the accounting treatment for a transaction or other event is not specified within a source of authoritative GAAP.

GASB Statement No. 77, *Tax Abatement Disclosures*, issued August 2015, will be effective for the City beginning with its fiscal year ending June 30, 2017. This statement requires governments to disclose information about their own tax abatements separately from information about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues. The disclosures about the government's own tax abatement agreements includes the purpose of the tax abatement program, the tax being abated, the amount of tax being abated, the provisions of recapturing abated taxes, the types of commitments made by tax abatement recipients, and other commitments made by government in tax abatement agreements. The disclosures about tax abatements that are entered into by other governments and reduce the reporting government's tax revenues includes the name of the government entering into the abatement agreement, the tax being abated, and the amount of the reporting government's tax being abated.

**Note 16. New Governmental Accounting Standards Board (GASB) Statements (Continued)**

GASB Statement No. 78, *Pensions Provided through Certain Multiple-Employer Defined Benefit Pension Plans*, issued December 2015, will be effective for the City beginning with its fiscal year ending June 30, 2017. Statement No. 78 provides guidance to governments that participate in certain private or federally sponsored multiple-employer defined benefit pension plans. This Statement assists these governments by focusing employer accounting and financial reporting requirements for those pension plans on obtainable information. In lieu of the existing requirements under Statement 68, the new guidance establishes separate requirements for employers that participate in these pension plans. This Statement establishes the criteria for identifying the applicable pension plans and addresses: (a) measurement and recognition of pension liabilities, expense, and expenditures; (b) note disclosures of descriptive information about the plan, benefit terms, and contribution terms; and (c) required supplementary information presenting required contribution amounts for the past 10 fiscal years.

GASB Statement No. 79, *Certain External Investment Pools and Pool Participants*, issued December 2015, will be effective for the City beginning with its fiscal year ending June 30, 2016. Statement No. 79 addresses accounting and financial reporting for certain external investment pools and pool participants by establishing criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. The Statement also establishes additional note disclosure requirements for qualifying external investment pools and for governments that participate in those pools.

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

**Note 17. Restatements**

As a result of the adoption of GASB Statement No. 68 and No. 71, the beginning net position of the governmental activities, business-type activities, the Capital Projects major fund, Water, Sewer and Stormwater major funds and aggregate remaining fund information opinion units were restated.

The City also restated the beginning net position/fund balance of the governmental activities, the business-type activities, Capital Projects Fund, the Storm Water Fund and the aggregate remaining fund information to record grant revenue that had not previously been reported, to correct an error in debt proceeds applied to the wrong fund in 2014 and to remove the Library Foundation as a blended component unit.

**City of Johnston, Iowa**

**Notes to Financial Statements**

**Note 17. Restatement (Continued)**

The effect on governmental activities for these restatements for fiscal year 2014 is as follows:

	Governmental Fund Capital Projects Fund	Governmental Activities	Aggregate Remaining Fund Information
Net position/fund balance, June 30, 2014, as previously reported	\$ 11,775,728	\$ 85,661,551	\$ 1,515,043
Net pension liability at June 30, 2014	-	(2,546,586)	-
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	-	506,865	-
Unrecorded revenue	264,024	264,024	-
Debt proceeds	(2,617,161)	(2,617,161)	-
Library Foundation	-	(219,375)	(219,375)
<b>Net position/fund balance, June 30, 2014, as restated</b>	<b>\$ 9,422,591</b>	<b>\$ 81,049,318</b>	<b>\$ 1,295,668</b>

The effect on business-type activities for these restatements for fiscal year 2014 is as follows:

	Business-Type Activities			
	Water	Sewer	Storm Water	Total
Net position (deficit), June 30, 2014, as previously reported	\$ 17,235,371	\$ 22,916,101	\$ (1,481,319)	38,670,153
Net pension liability at June 30, 2014	(302,956)	(302,948)	-	(605,904)
Deferred outflows of resources related to contributions made after the June 30, 2013 measurement date	32,006	32,005	-	64,011
Debt proceeds	-	-	2,617,161	2,617,161
<b>Net position, June 30, 2014, as restated</b>	<b>\$ 16,964,421</b>	<b>\$ 22,645,158</b>	<b>\$ 1,135,842</b>	<b>\$ 40,745,421</b>

The change in net position for the governmental activities and the change in fund balance for the Capital Projects Fund and Aggregate Remaining Fund for the year ended June 30, 2014 as previously reported was \$5,066,176, \$4,848,491 and \$235,382, respectively. The impact of the above items had a \$(2,572,512), \$(2,353,137) and \$(219,375), respectively, effect with the change in net position for the Governmental Activities and the change in fund balance for the Capital Projects Fund and Aggregate Remaining Fund for the year ended June 30, 2014 as restated totaled \$2,493,664, \$2,495,354 and \$16,007, respectively.

The change in net position for the stormwater fund for the year ended June 30, 2014 as previously reported was \$(1,942,881). The impact of the above item had a \$2,617,161 effect on the change in net position which as restated totaled \$674,280.

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City of Johnston, Iowa

**Budgetary Comparison Schedule**  
**Budget and Actual (Cash Basis) - Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2015**

	Governmental Funds Actual	Proprietary Funds Actual	Total Actual
<b>Revenues:</b>			
Property tax	\$ 12,743,148	\$ -	\$ 12,743,148
Tax increment financing	3,733,446	-	3,733,446
Other city tax	729,788	-	729,788
Licenses and permits	763,135	-	763,135
Use of money and property	152,812	-	152,812
Intergovernmental	2,822,534	-	2,822,534
Charges for services	1,080,730	6,860,868	7,941,598
Special assessments	15,604	-	15,604
Miscellaneous	214,105	146,349	360,454
<b>Total revenues</b>	<b>22,255,302</b>	<b>7,007,217</b>	<b>29,262,519</b>
<b>Expenditures:</b>			
<b>Current:</b>			
Public safety	5,135,905	-	5,135,905
Public works	3,435,326	-	3,435,326
Health and social services	50,666	-	50,666
Culture and recreation	2,794,750	-	2,794,750
Community development	3,076,177	-	3,076,177
General government	1,996,381	-	1,996,381
Debt service	6,763,100	-	6,763,100
Capital outlay	14,570,080	-	14,570,080
Business type activities	-	6,064,602	6,064,602
<b>Total expenditures</b>	<b>37,822,385</b>	<b>6,064,602</b>	<b>43,886,987</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>(15,567,083)</b>	<b>942,615</b>	<b>(14,624,468)</b>
Other financing sources	27,175,604	553,771	27,729,375
<b>Net change in fund balances</b>	<b>11,608,521</b>	<b>1,496,386</b>	<b>13,104,907</b>
Fund balances, beginning of year, as restated	21,165,828	40,745,421	61,911,249
Fund balances, end of year	\$ 32,774,349	\$ 42,241,807	\$ 75,016,156

See Note to Required Supplementary Information.

Accrual Adjustments	Total Actual (Budgetary Basis)	Budgeted Amounts		Final to Actual Variance
		Original	Final	
\$ (55,845)	\$ 12,687,303	\$ 12,742,564	\$ 12,742,564	\$ 55,261
(6,238)	3,727,208	3,694,802	3,707,999	(19,209)
(86,232)	643,556	615,720	615,720	(27,836)
(7,117)	756,018	464,275	705,029	(50,989)
6,823	159,635	73,160	143,495	(16,140)
(555,753)	2,266,781	2,113,832	3,411,135	1,144,354
(194,648)	7,746,950	7,903,886	8,235,624	488,674
(134,038)	(118,434)	200,200	216,341	334,775
(4,276)	356,178	400,990	589,319	233,141
<u>(1,037,324)</u>	<u>28,225,195</u>	<u>28,209,429</u>	<u>30,367,226</u>	<u>2,142,031</u>
(205,646)	4,930,259	5,040,528	5,442,026	511,767
(17,217)	3,418,109	3,720,797	4,211,838	793,729
-	50,666	52,250	52,966	2,300
-	2,794,750	2,825,866	2,861,737	66,987
-	3,076,177	3,461,162	3,134,421	58,244
(190,448)	1,805,933	1,394,642	2,042,342	236,409
(320,596)	6,442,504	7,118,682	7,461,280	1,018,776
(565,826)	14,004,254	15,002,100	33,879,743	19,875,489
104,413	6,169,015	8,487,602	9,329,878	3,160,863
<u>(1,195,320)</u>	<u>42,691,667</u>	<u>47,103,629</u>	<u>68,416,231</u>	<u>25,724,564</u>
157,996	(14,466,472)	(18,894,200)	(38,049,005)	(23,582,533)
-	27,729,375	16,955,600	30,185,130	2,455,755
157,996	13,262,903	(1,938,600)	(7,863,875)	(21,126,778)
-	68,986,541	22,102,211	18,953,925	49,182,790
<u>\$ 157,996</u>	<u>\$ 82,249,444</u>	<u>\$ 20,163,611</u>	<u>\$ 11,090,050</u>	<u>\$ 28,056,012</u>

City of Johnston, Iowa

**Budget to GAAP Reconciliation  
Required Supplementary Information  
Year Ended June 30, 2015**

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	Governmental Funds		
	Budgetary Basis	Accrual Adjustments	Modified Accrual Basis
Revenues	\$ 21,708,102	\$ 547,200	\$ 22,255,302
Expenditures	39,023,091	(1,200,706)	37,822,385
<b>Net</b>	<b>(17,314,989)</b>	<b>1,747,906</b>	<b>(15,567,083)</b>
Other financing sources (uses)	27,175,604	-	27,175,604
Beginning fund balance/net position, as restated	21,165,827	-	21,165,827
Ending fund balance/net position	<u>\$ 31,026,442</u>	<u>\$ 1,747,906</u>	<u>\$ 32,774,348</u>

See Note to Required Supplementary Information.

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Proprietary Funds		
Budgetary Basis	Accrual Adjustments	Modified Accrual Basis
\$ 6,980,143	\$ 27,074	\$ 7,007,217
6,064,612	(10)	6,064,602
915,531	27,084	942,615
984,759	-	984,759
40,745,421	-	40,745,421
<u>\$ 42,645,711</u>	<u>\$ 27,084</u>	<u>\$ 42,672,795</u>

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**City of Johnston, Iowa**

**Note to Required Supplementary Information  
Budgetary Reporting  
Year Ended June 30, 2015**

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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 \$21,312,602. These budget amendments are reflected in the final budgeted amounts.

City of Johnston, Iowa

Required Supplementary Information  
Other Postemployment Benefit Plan

SCHEDULE OF FUNDING PROGRESS

Fiscal Year Ended	Actuarial Valuation Date	Actuarial Valuation of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (b-a)	Funded Ratio (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll [(b-a)/c]
2015	07/01/2014	\$ -	\$ 2,533,000	\$ 2,533,000	\$ -	\$ 5,545,000	45.7%
2014	07/01/2011	-	1,597,000	1,597,000	-	6,218,000	25.7
2013	07/01/2011	-	1,597,000	1,597,000	-	5,782,000	27.6
2012	07/01/2011	-	1,597,000	1,597,000	-	5,455,000	29.3
2011	07/01/2008	-	726,000	726,000	-	5,434,000	13.6

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.

**City of Johnston, Iowa**

**Required Supplementary Information  
Schedule of the City's Proportionate Share of the Net Pension Liability  
Iowa Public Employees' Retirement System**

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	<u>2015</u>
City's proportion of the net pension liability	0.0368745%
City's proportionate share of the net pension liability	\$ 1,462,408
City's covered-employee payroll	\$ 6,042,233
City's proportionate share of the net pension liability as a percentage of its covered payroll	24.20%
Plan fiduciary net position as a percentage of the total pension liability	87.61%

Note: GASB Statement No. 68 requires ten years of information to be presented in this table. However, until a full 10-year trend is compiled, the City will present information for those years for which information is available.

See Notes to Required Supplementary Information.

**City of Johnston, Iowa**

**Required Supplementary Information  
 Schedule of City Contributions  
 Iowa Public Employees' Retirement System**

	Statutorily Required Contribution	Contributions in Relation to the Statutorily Required Contribution	Contributions Deficiency (Excess)	City's Covered- Employee Payroll	Contributions as a Percentage of Covered Employee Payroll
<b>2015</b>	<b>\$ 594,760</b>	<b>\$ 594,760</b>	<b>\$ -</b>	<b>\$ 6,290,859</b>	<b>9.45%</b>
2014	570,876	570,876	-	6,042,233	9.45
2013	528,760	528,760	-	N/A	N/A
2012	470,749	470,749	-	N/A	N/A
2011	422,724	422,724	-	N/A	N/A
2010	392,105	392,105	-	N/A	N/A
2009	333,051	333,051	-	N/A	N/A
2008	298,613	298,613	-	N/A	N/A
2007	269,413	269,413	-	N/A	N/A
2006	234,594	234,594	-	N/A	N/A

See Notes to Required Supplementary Information.

**City of Johnston, Iowa**

**Notes to Required Supplementary Information  
Pension Liability  
Year Ended June 30, 2015**

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**Note 1. Changes of Benefit Terms**

Legislation passed in 2010 modified benefit terms for current Regular members. The definition of final average salary changed from the highest three to the highest five years of covered wages. The vesting requirement changed from four years of service to seven years. The early retirement reduction increased from 3 percent per year measured from the member's first unreduced retirement age to a 6 percent reduction for each year of retirement before age 65.

In 2008, legislative action transferred four groups – emergency medical service providers, county jailers, county attorney investigators and National Guard installation security officers – from Regular membership to the protection occupation group for future service only.

Benefit provisions for sheriffs and deputies were changed in the 2004 legislative session. The eligibility for unreduced retirement benefits was lowered from age 55 by one year each July 1 (beginning in 2004) until it reached age 50 on July 1, 2008. The years of service requirement remained at 22 or more. Their contribution rates were also changed to be shared 50-50 by the employee and employer, instead of the previous 40-60 split.

**Note 2. Changes of Assumptions**

The 2014 valuation implemented the following refinements as a result of a quadrennial experience study:

- Decreased the inflation assumption from 3.25 percent to 3.00 percent
- Decreased the assumed rate of interest on member accounts from 4.00 percent to 3.75 percent per year.
- Adjusted male mortality rates for retirees in the Regular membership group.
- Reduced retirement rates for sheriffs and deputies between the ages of 55 and 64.
- Moved from an open 30 year amortization period to a closed 30 year amortization period for the UAL beginning June 30, 2014. Each year thereafter, changes in the UAL from plan experience will be amortized on a separate closed 20 year period.

The 2010 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted retiree mortality assumptions.
- Modified retirement rates to reflect fewer retirements.
- Lowered disability rates at most ages.
- Lowered employment termination rates
- Generally increased the probability of terminating members receiving a deferred retirement benefit.
- Modified salary increase assumptions based on various service duration.

The 2007 valuation adjusted the application of the entry age normal cost method to better match projected contributions to the projected salary stream in the future years. It also included in the calculation of the UAL amortization payments the one-year lag between the valuation date and the effective date of the annual actuarial contribution rate.

**City of Johnston, Iowa**

**Notes to Required Supplementary Information  
Pension Liability  
Year Ended June 30, 2015**

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**Note 2. Changes of Assumptions (Continued)**

The 2006 valuation implemented the following refinements as a result of a quadrennial experience study:

- Adjusted salary increase assumptions to service based assumptions.
- Decreased the assumed interest rate credited on employee contributions from 4.25 percent to 4.00 percent.
- Lowered the inflation assumption from 3.50 percent to 3.25 percent.
- Lowered disability rates for sheriffs and deputies and protection occupation members.

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City of Johnston, Iowa

Nonmajor Governmental Funds  
 Combining Balance Sheet  
 June 30, 2015

	Special Revenue Funds		
	Road Use Tax	Police	Law Enforcement Block Grant
<b>Assets</b>			
Cash and investments	\$ 688,816	\$ 50,697	\$ 2,294
Accounts receivable	-	-	-
Due from other funds	157,179	-	-
Due from other governments	177,659	4,000	-
Prepaid expenditures	17,217	-	-
<b>Total assets</b>	<b>\$ 1,040,871</b>	<b>\$ 54,697</b>	<b>\$ 2,294</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ 48,720	\$ -	\$ -
Salaries and benefits payable	55,476	-	-
Due to other governments	190	-	-
<b>Total liabilities</b>	<b>104,386</b>	<b>-</b>	<b>-</b>
<b>Fund Balance</b>			
Nonspendable	17,217	-	-
Restricted for:			
Special revenue purposes	919,268	54,697	2,294
<b>Total fund balances</b>	<b>936,485</b>	<b>54,697</b>	<b>2,294</b>
<b>Total liabilities and fund balances</b>	<b>\$ 1,040,871</b>	<b>\$ 54,697</b>	<b>\$ 2,294</b>

(Continued)

Special Revenue Funds						
Police Forfeitures	East Park District	Northridge Park District	Northwest Park District	Southwest Park District	Senior Citizens	
\$ 895	\$ 4,001	\$ 94,491	\$ 15,508	\$ 47,715	\$ 3,677	
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
\$ 895	\$ 4,001	\$ 94,491	\$ 15,508	\$ 47,715	\$ 3,677	
\$ -	\$ -	\$ -	\$ -	\$ -	\$ 954	
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	954
-	-	-	-	-	-	-
895	4,001	94,491	15,508	47,715	2,723	
895	4,001	94,491	15,508	47,715	2,723	
\$ 895	\$ 4,001	\$ 94,491	\$ 15,508	\$ 47,715	\$ 3,677	

City of Johnston, Iowa

Nonmajor Governmental Funds  
 Combining Balance Sheet (Continued)  
 June 30, 2015

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Library	Community Improvement	
<b>Assets</b>			
Cash and investments	\$ 50,298	\$ 41,317	\$ 999,709
Accounts receivable	6,106	305	6,411
Due from other funds	-	-	157,179
Due from other governments	-	-	181,659
Prepaid expenditures	-	-	17,217
<b>Total assets</b>	<b>\$ 56,404</b>	<b>\$ 41,622</b>	<b>\$ 1,362,175</b>
<b>Liabilities and Fund Balances</b>			
<b>Liabilities</b>			
Accounts payable	\$ -	\$ 371	\$ 50,045
Salaries and benefits payable	-	-	55,476
Due to other governments	-	-	190
<b>Total liabilities</b>	<b>-</b>	<b>371</b>	<b>105,711</b>
<b>Fund Balance</b>			
Nonspendable	-	-	17,217
Restricted for:			
Special revenue purposes	56,404	41,251	1,239,247
<b>Total fund balances</b>	<b>56,404</b>	<b>41,251</b>	<b>1,256,464</b>
<b>Total liabilities and fund balances</b>	<b>\$ 56,404</b>	<b>\$ 41,622</b>	<b>\$ 1,362,175</b>

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City of Johnston, Iowa

**Nonmajor Governmental Funds  
Combining Statement of Revenues, Expenditures and Changes in Fund Balance  
Year Ended June 30, 2015**

	Special Revenue Funds		
	Road Use Tax	Police	Law Enforcement Block Grant
Revenues:			
Licenses and permits	\$ -	\$ -	\$ -
Use of money and property	-	28	-
Intergovernmental	1,840,962	4,000	-
Miscellaneous	-	-	-
<b>Total revenues</b>	<b>1,840,962</b>	<b>4,028</b>	<b>-</b>
Expenditures:			
Current:			
Public safety	-	16,373	-
Public works	1,294,661	-	-
Culture and recreation	-	-	-
Community and economic development	-	-	-
<b>Total expenditures</b>	<b>1,294,661</b>	<b>16,373</b>	<b>-</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>546,301</b>	<b>(12,345)</b>	<b>-</b>
Other financing sources (uses):			
Transfers in	-	-	-
Transfers out	(568,911)	-	-
<b>Total other financing sources (uses)</b>	<b>(568,911)</b>	<b>-</b>	<b>-</b>
<b>Net change in fund balances</b>	<b>(22,610)</b>	<b>(12,345)</b>	<b>-</b>
Fund balances, beginning of year	959,095	67,042	2,294
Fund balances, end of year	\$ 936,485	\$ 54,697	\$ 2,294

(Continued)

Special Revenue Funds									
Police Forfeitures	East Park District	Northridge Park District	Northwest Park District	Southwest Park District	Senior Citizens				
\$ -	\$ -	\$ -	\$ -	\$ -	\$ -				
-	-	9	1	4	-				
-	-	-	-	-	-				
-	-	-	-	-	-				
-	-	9	1	4	-				
-	-	-	-	-	-				
-	-	-	-	-	-				
-	-	-	-	-	-				6,208
-	-	-	-	-	-				-
-	-	-	-	-	-				6,208
-	-	9	1	4	-				(6,208)
-	-	-	-	-	-				4,900
-	-	-	-	-	-				-
-	-	-	-	-	-				4,900
-	-	9	1	4	-				(1,308)
895	4,001	94,482	15,507	47,711	4,031				
\$ 895	\$ 4,001	\$ 94,491	\$ 15,508	\$ 47,715	\$ 2,723				

City of Johnston, Iowa

**Nonmajor Governmental Funds  
Combining Schedule of Revenues, Expenditures, and Changes in Fund Balance (Continued)  
Year Ended June 30, 2015**

	Special Revenue Funds		Total Nonmajor Governmental Funds
	Library	Community Improvement	
Revenues:			
Licenses and permits	\$ 24,568	\$ -	\$ 24,568
Use of money and property	5	1,934	1,981
Intergovernmental	-	-	1,844,962
Miscellaneous	-	5,125	5,125
<b>Total revenues</b>	<b>24,573</b>	<b>7,059</b>	<b>1,876,636</b>
Expenditures:			
Current:			
Public safety	-	-	16,373
Public works	-	-	1,294,661
Culture and recreation	-	-	6,208
Community and economic development	-	40,587	40,587
<b>Total expenditures</b>	<b>-</b>	<b>40,587</b>	<b>1,357,829</b>
<b>Excess (deficiency) of revenues over (under) expenditures</b>	<b>24,573</b>	<b>(33,528)</b>	<b>518,807</b>
Other financing sources (uses):			
Transfers in	-	30,000	34,900
Transfers out	(24,000)	-	(592,911)
<b>Total other financing sources (uses)</b>	<b>(24,000)</b>	<b>30,000</b>	<b>(558,011)</b>
<b>Net change in fund balances</b>	<b>573</b>	<b>(3,528)</b>	<b>(39,204)</b>
Fund balances, beginning of year	55,831	44,779	1,295,668
Fund balances, end of year	\$ 56,404	\$ 41,251	\$ 1,256,464

City of Johnston, Iowa

Governmental Activities - Internal Service Funds  
Combining Schedule of Net Position  
June 30, 2015

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	Flexible Spending	Health Deductible Claims	Total Internal Service Funds
<b>Assets</b>			
Cash and investments	\$ 2,100	\$ 613,915	\$ 616,015
Accounts receivable	-	68,345	68,345
<b>Total assets</b>	<u>2,100</u>	<u>682,260</u>	<u>684,360</u>
<b>Liabilities</b>			
Accounts payable	5,297	175,000	180,297
<b>Net position</b>			
Unrestricted	<u>\$ (3,197)</u>	<u>\$ 507,260</u>	<u>\$ 504,063</u>

City of Johnston, Iowa

**Governmental Activities - Internal Service Funds**  
**Combining Schedule of Revenues, Expenses and Changes in Net Position**  
**Year Ended June 30, 2015**

	Flexible Spending	Health Deductible Claims	Total Internal Service Funds
Operating revenues:			
Contributions from employees	\$ 60,454	\$ -	\$ 60,454
Contributions from operating funds	-	1,125,699	1,125,699
<b>Total operating revenues</b>	<b>60,454</b>	<b>1,125,699</b>	<b>1,186,153</b>
Operating expenses:			
Public safety	28,393	620,175	648,568
Public works	8,623	188,358	196,981
Culture and recreation	11,760	256,875	268,635
Community development	4,538	99,116	103,654
General government	4,153	90,716	94,869
<b>Total operating expenses</b>	<b>57,467</b>	<b>1,255,240</b>	<b>1,312,707</b>
<b>Operating income (loss)</b>	<b>2,987</b>	<b>(129,541)</b>	<b>(126,554)</b>
Nonoperating income, investment earnings	-	166	166
<b>Changes in net position</b>	<b>2,987</b>	<b>(129,375)</b>	<b>(126,388)</b>
Total net position (deficit), beginning	(6,184)	636,635	630,451
Total net position (deficit), ending	<b>\$ (3,197)</b>	<b>\$ 507,260</b>	<b>\$ 504,063</b>

City of Johnston, Iowa

**Governmental Activities - Internal Service Funds  
Combining Schedule of Cash Flows  
Year Ended June 30, 2015**

	Flexible Spending	Health Deductible Claims	Total Internal Service Funds
Cash flows from operating activities:			
Cash received from (paid to) employees	\$ 61,675	\$ -	\$ 61,675
Cash received from operating funds reimbursements	-	1,057,354	1,057,354
Cash received from (paid to) suppliers	(60,449)	(1,181,240)	(1,241,689)
<b>Net cash provided by operating activities</b>	<b>1,226</b>	<b>(123,886)</b>	<b>(122,660)</b>
Cash flows from investing activities, interest on investments			
	-	166	166
<b>Net increase in cash and cash equivalents</b>	<b>1,226</b>	<b>(123,720)</b>	<b>(122,494)</b>
Cash and cash equivalents:			
Beginning	874	737,635	738,509
Ending	<u>\$ 2,100</u>	<u>\$ 613,915</u>	<u>\$ 616,015</u>
Reconciliation of operating income to net cash provided by operating activities:			
Operating income (loss)	\$ 2,987	\$ (129,541)	\$ (126,554)
Adjustments to reconcile operating income to net cash provided by operating activities:			
(Increase) decrease in accounts receivable	(1,761)	(68,345)	(70,106)
Increase (decrease) in accounts payable	-	74,000	74,000
<b>Net cash provided by operating activities</b>	<b>\$ 1,226</b>	<b>\$ (123,886)</b>	<b>\$ (122,660)</b>

City of Johnston, Iowa

**Schedule of Revenues by Source and Expenditures by Function  
All Governmental Funds  
For the Last Ten Years**

	Modified Accrual Basis		
	2015	2014	2013
Revenues:			
Property tax	\$ 12,743,148	\$ 12,161,590	\$ 11,575,575
Tax increment financing	3,733,446	3,233,081	3,353,369
Other city tax	729,788	702,233	695,594
Licenses and permits	763,135	575,452	528,237
Use of money and property	152,812	142,440	67,411
Intergovernmental	2,822,534	2,065,873	4,761,183
Charges for services	1,080,730	1,017,863	992,483
Special assessments	15,604	17,605	60,728
Miscellaneous	214,105	300,172	142,642
<b>Total revenue</b>	<b>\$ 22,255,302</b>	<b>\$ 20,216,309</b>	<b>\$ 22,177,222</b>
Expenditures:			
Current:			
General government	\$ 1,996,381	\$ 4,196,715	\$ 4,322,630
Public safety	5,135,905	2,127,877	2,694,496
Public works	3,435,326	44,696	16,900
Health and social services	50,666	2,591,665	2,582,193
Culture and recreation	2,794,750	2,276,860	1,020,844
Community development	3,076,177	1,053,516	1,059,976
Capital outlay	6,763,100	6,384,644	7,277,133
Debt service	14,570,080	12,648,042	10,531,939
<b>Total expenditures</b>	<b>\$ 37,822,385</b>	<b>\$ 31,324,015</b>	<b>\$ 29,506,111</b>

Modified Accrual Basis

2012	2011	2010	2009	2008	2007	2006
\$ 11,354,506	\$ 10,957,998	\$ 10,610,000	\$ 9,725,905	\$ 9,083,339	\$ 8,591,627	\$ 6,972,821
2,990,804	2,172,053	1,304,410	1,197,459	1,518,773	1,438,376	2,459,927
666,448	620,145	592,898	594,415	649,888	699,042	738,623
657,882	515,654	447,964	413,170	294,597	466,175	680,312
72,379	63,497	80,337	394,557	785,453	793,137	602,449
5,609,488	2,985,907	2,177,777	2,966,754	5,868,814	5,012,329	1,938,177
893,424	791,741	676,150	570,103	566,477	441,883	120,298
58,660	68,538	129,393	108,432	116,240	186,944	337,237
97,346	94,116	85,783	242,387	1,164,184	355,279	423,443
<u>\$ 22,400,937</u>	<u>\$ 18,269,649</u>	<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>

\$ 3,693,374	\$ 3,418,619	\$ 3,374,672	\$ 3,798,404	\$ 2,820,967	\$ 2,379,630	\$ 1,989,562
2,322,232	2,267,730	2,438,165	2,638,527	2,676,064	1,818,351	1,696,756
46,082	16,200	34,823	20,477	31,557	22,118	30,827
2,493,234	2,156,207	2,134,363	1,931,317	2,037,087	1,914,551	1,684,162
925,677	973,066	1,001,176	944,270	826,826	835,133	787,606
979,034	1,158,530	1,081,694	1,186,366	1,203,453	1,290,093	1,129,580
6,876,039	5,893,194	5,558,127	5,611,736	5,283,287	4,898,444	5,002,217
7,324,286	5,353,185	2,097,238	2,390,891	8,162,135	8,397,962	8,510,036
<u>\$ 24,659,958</u>	<u>\$ 21,236,731</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>

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**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**

RSM US LLP

**Independent Auditor's Report**

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

We have audited 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, the 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, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 24, 2016. The opinion on the financial statements of the City for the year ended June 30, 2015 also includes emphasis of matters paragraphs indicating the City restated beginning net position of the governmental activities, business-type activities, Capital Projects Fund, Storm Water Fund and the Aggregate Remaining Fund to record grant revenues that had not previously been reported to correct an error in debt proceeds accounted for in the wrong fund and to remove the Library Foundation as a blended component unit in fiscal 2014 and for the implementation of GASB Statement No. 68, *Accounting and Financial Reporting for Pensions* and No. 71, *Pension Transition for Contributions Made Subsequent to the Measurement Date* to recognize a net pension liability and deferred outflows of resources of the governmental activities, business-type activities, and each major enterprise fund in 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.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying schedule of findings, we identified certain deficiencies in internal control that we consider to be material weaknesses.

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. We consider the deficiencies 2015-001, 2015-002 and 2015-003 described in the accompanying schedule of findings to be material weaknesses.

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.

### **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*.

### **City's Responses to Findings**

The City's responses to the internal control over financial reporting 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 compliance and, accordingly, we express no opinion on the responses.

### **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.

*RSM US LLP*

Des Moines, Iowa  
March 24, 2016

**II. Findings Relating to the Financial Statement Audit as Required to be Reported in Accordance With Generally Accepted *Government Auditing Standards***

**A. Material Weaknesses in Internal Control**

**2015-001**

Finding: There were matters that materially affected the June 30, 2014 financial statements which resulted in restatements to the July 1, 2014 beginning fund balance/net position of various opinion units.

Criteria: Management is responsible for preparing financial statements in accordance with generally accepted accounting principles.

Condition: Errors resulted in a restatement of the beginning net position of the governmental activities, the business-type activities, Capital Projects Fund, the Storm Water Fund and the Aggregate Remaining Fund to record grant revenue that had not previously been reported, to correct an error in debt proceeds accounted for in the wrong fund and to remove the Library Foundation as a blended component in 2014.

Context: Prior year journal entries made to record bond proceeds and intergovernmental revenue and to remove the Library Foundation as a blended component.

Effect: Misstatement of cash, intergovernmental revenue and fund balance/net position relating to the fiscal year ended June 30, 2014 and to remove the Library Foundation as a blended component.

Cause: There was a failure in management's review of prior year audit entries and financial statements. Audit adjustments made in the prior year did not agree to supporting schedules provided by management related to intergovernmental revenues. Audit adjustments made in the prior year related to the Series 2013B debt issuance did not agree to supporting debt schedules. The Library Foundation was mistakenly included as a blended component unit.

Recommendation: We recommend a detailed review of all audit adjustments and year-end accrual journal entries as well as the financial statements.

Response and Corrective Action Plan: The City agrees with the recommendation and has restated the items noted.

**2015-002**

Finding: The Finance Director has administrator access rights within the City's general ledger software, which creates a lack of segregation of duties.

Criteria: Internal control should be designed to prevent or detect and correct misstatements on a timely basis.

Condition: The Finance Director has administrator access rights within the City's general ledger software, which provides the ability to change access levels and privileges for items such as access to create new vendors, post invoices for payment, generate checks for payment. In addition, the Finance Director signs and mails checks.

Context: Pervasive to all modules within the general ledger software.

Effect: Misappropriation of assets or inappropriate or unauthorized journal entries could occur and not be detected in a timely manner.

Cause: Due to small staff size and administrative expediency, the Finance Director operates as the administrator within the general ledger software.

City of Johnston, Iowa

Schedule of Findings  
Year Ended June 30, 2015

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Recommendation: We recommend that management explore options to have the administrative function shift to an individual outside of the Finance Department, or that management implement controls to monitor the activity of the administrative user. Such monitoring controls may include review of a user activity log, or history file, by someone who does not have administrator access. This will allow management to evaluate if actions performed by the administrative user are appropriate.

Response and Corrective Action Plan: The City is implementing a change in administrative access rights in 2016 to alleviate this segregation of duties issue.

**2015-003**

Finding: The City does not have a year-end process implemented for the preparation of financial statements in accordance with generally accepted accounting principles.

Criteria: The year-end closing process, including the accurate recording and accounting of transactions, is a critical function of the City. Management is responsible for preparing financial statements in accordance with generally accepted accounting principles.

Condition: Several adjustments were required to be made to the trial balance relating to the conversion from a cash basis to a modified accrual basis within the governmental funds, and an accrual basis for governmental activities and proprietary funds as required by accounting principles generally accepted in the United States of America. Some of the adjustments were prepared by the City staff within their workpapers but were not posted by the City prior to the start of the audit.

Context: Pervasive to the financial statements as a whole.

Effect: The lack of adequate closing policies and procedures could result in material misstatements to the financial statements.

Cause: Due to the small staff at the City, they operate on a cash basis throughout the year and lack effective review procedures over accrual adjustments.

Recommendation: We recommend that the City develop a year end close process to record all adjustments necessary to prepare financial statements in accordance with generally accepted accounting principles.

Response and Corrective Action Plan: The City is investigating options to aid in the year end close process and implement procedures to record entries that could materially affect the financial statements.

**B. Compliance Findings**

None reported.

**III. Other Findings Related to Required Statutory Reporting**

**15-II-A**

Certified budget: No expenditures exceeded the amended certified budget amounts.

**15-II-B**

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.

**City of Johnston, Iowa**

**Schedule of Findings  
Year Ended June 30, 2015**

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**15-II-C**

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

**15-II-D**

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

**15-II-E**

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.

**15-II-F**

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

**15-II-G**

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.

**15-II-H**

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

**15-II-I**

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.

**15-II-J**

Financial condition: The Flexible Spending internal service fund had a deficit balance at June 30, 2015 of \$3,197.

Recommendation: The City should investigate alternatives to eliminate this deficit in order to return this fund to a sound financial position.

Response: 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. The 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. The deficit balance is due to this timing difference between contributions and withdrawals and the City's fiscal year being different than the calendar year.

City of Johnston, Iowa

Schedule of Findings  
Year Ended June 30, 2015

15-II-K

Other information required by bond resolution:

Insurance – the following insurance policies were in force at June 30, 2015:

Insurer	Description	Expiration Date	Amount
EMC Insurance	Automobile Cov.		
	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	Blanket Building and personal Prop.	April 1,2015	\$38,266,000
EMC Insurance	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
EMC Insurance	Commercial Crime		
	employee theft-per empl.	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	April 1,2015	\$25,000	
EMC Insurance	Inland Marine		
	contractors equipment	April 1,2015	\$1,287,217
	rented contracted equip.	April 1,2015	\$75,000
	misc. property	April 1,2015	\$838,484
	data processing -equip.	April 1,2015	\$100,000
EMC Insurance	Commercial Umbrella		
	each occurrence	April 1,2015	\$10,000,000
	general aggregate	April 1,2015	\$10,000,000
	retained limit	April 1,2015	\$10,000
EMC Insurance	Workers' compensation		
	bodily injury by accident	April 1 ,2015	\$500,000
	bodily injury by disease-ea. employee	April 1 ,2015	\$500,000
	bodily injury by disease-policy limit	April 1 ,2015	\$500,000
EMC Insurance	Linebacker		
	each loss	April 1,2015	\$1,000,000
	aggregate	April 1,2015	\$2,000
EMC Insurance	Law enforcement Liability		
	each occurrence	April 1,2015	\$1,000,000
	aggregate	April 1,2015	\$2,000,000
EMC Insurance	Data Compromise		
	response expenses coverage	April 1 ,2015	\$100,000
	defense & liability coverage	April 1 ,2015	\$100,000
	identity recovery	April 1 ,2015	\$25,000

**City of Johnston, Iowa**

**Schedule of Findings  
Year Ended June 30, 2015**

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**15-II-L**

Statistical information:

<u>Description</u>	<u>Number</u>
Sewer customer served at June 30, 2015	5,800

Sewer rates in effect at June 30, 2015: Service availability fee per month of \$5.41 plus \$5.00 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	\$ 0.16 per pound
Suspended solids	\$ 0.11 per pound
Oil and grease	\$ 0.06 per pound
Total Kjeldahl Nitrogen	\$ 0.61 per pound

