



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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NEWS RELEASE

FOR RELEASE _____

March 14, 2012

Contact: Andy Nielsen
515/281-5834

Auditor of State David A. Vaudt today released an audit report on the City of Solon, Iowa.

The City's receipts totaled \$4,600,911 for the year ended June 30, 2011. The receipts included \$621,928 in property tax, \$461,225 from tax increment financing, \$983,547 from charges for service, \$383,553 from operating grants, contributions and restricted interest, \$142,847 from local option sales tax, \$19,903 from unrestricted interest on investments, \$1,958,359 from bond proceeds and \$29,549 from other general receipts.

Disbursements for the year totaled \$3,480,075, and included \$857,965 for capital projects, \$577,750 for public works and \$420,162 for debt service. Also, disbursements for business type activities totaled \$952,019.

A copy of the audit report is available for review in the City Clerk's Office, in the Office of Auditor of State and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/1120-0488-B00F.pdf>.

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CITY OF SOLON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS
JUNE 30, 2011

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City of Solon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Rick Jedlicka	Mayor	Jan 2012
Sue Ballantyne	Mayor Pro tem	Jan 2012
Brad Kunkel	Council Member	Jan 2012
Cami Rasmussen	Council Member	Jan 2014
Steve Stange	Council Member	Jan 2014
Brad Randall (Resigned)	Council Member	Dec 2010
Mark Krall (Appointed)	Council Member	Nov 2011
Cassandra Lippincott	City Administrator	Indefinite
Susie Siddell	Clerk/Treasurer	Indefinite
Benjamin Hayek	Attorney	Indefinite

City of Solon



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Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Solon's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

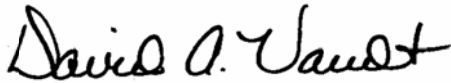
As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010.

In our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Solon as of June 30, 2011, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

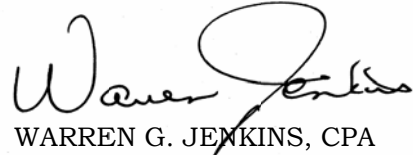
In accordance with Government Auditing Standards, we have also issued our report dated February 28, 2012 on our consideration of the City of Solon's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Management's Discussion and Analysis and budgetary comparison information on pages 7 through 12 and 30 through 32 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Solon's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had we been able to verify the distribution by fund of the total fund balance at July 1, 2010, as discussed in the third paragraph, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 28, 2012

MANAGEMENT'S DISCUSSION AND ANALYSIS

The City of Solon provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2011. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

Because the City is not required to be audited annually, much of the information is not easily comparable to prior years. Comparative data has been provided if available.

2011 FINANCIAL HIGHLIGHTS

- The cash basis net assets of the City's governmental activities increased \$936,532 from fiscal year 2010 to fiscal year 2011. The increase is due primarily to bond proceeds received in fiscal year 2011 and less than anticipated capital project disbursements.
- The cash basis net assets of the City's business type activities increased \$184,304, due primarily to receipts exceeding disbursements in the Enterprise Funds, including bond proceeds of \$333,412 and project disbursements for the well system totaling \$314,655.

USING THIS ANNUAL REPORT

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

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

The Government-wide Financial Statement consists of a Statement of Activities and Net Assets. This statement provides information about the activities of the City as a whole and presents an overall view of the City's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report the City's operations in more detail than the government-wide financial statement by providing information about the most significant funds.

Notes to Financial Statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the City's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor governmental funds and the City's indebtedness.

BASIS OF ACCOUNTING

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles. Therefore, when reviewing the financial information and discussion within this annual report, readers should keep in mind the limitations resulting from the use of the cash basis of accounting.

REPORTING THE CITY'S FINANCIAL ACTIVITIES

Government-wide Financial Statement

One of the most important questions asked about the City's finances is, "Is the City as a whole better off or worse off as a result of the year's activities?" The Statement of Activities and Net Assets reports information which helps answer this question.

The Statement of Activities and Net Assets presents the City's net assets. Over time, increases or decreases in the City's net assets may serve as a useful indicator of whether the financial position of the City is improving or deteriorating.

The Statement of Activities and Net Assets is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, sanitary sewer system and recoupment fees. These activities are financed primarily by user charges.

Fund Financial Statements

The City has two kinds of funds:

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

The required financial statement for governmental funds is a statement of cash receipts, disbursements and changes in cash balances.

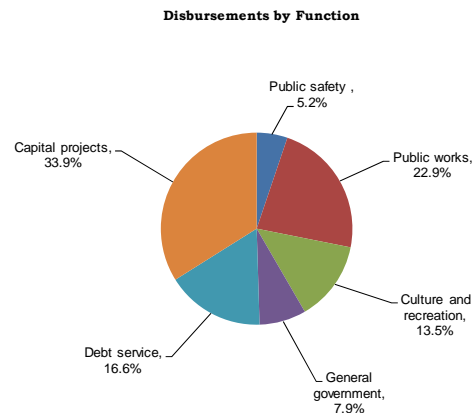
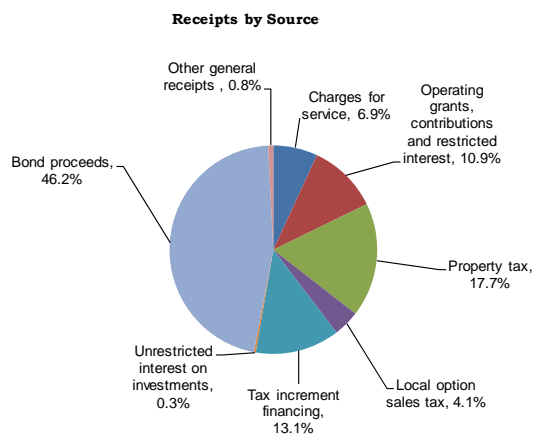
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Recoupment Fees Funds, considered to be major funds of the City.

The required financial statement for proprietary funds is a statement of cash receipts, disbursements and changes in cash balances.

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net assets may serve over time as a useful indicator of financial position. The City's cash balance for governmental activities increased from a year ago, increasing from approximately \$942,000 to approximately \$1,879,000. The analysis that follows focuses on the changes in cash basis net assets of governmental activities.

Changes in Cash Basis Net Assets of Governmental Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service	\$ 241,972
Operating grants, contributions and restricted interest	383,553
General receipts:	
Property tax	621,928
Tax increment financing	461,225
Local option sales tax	142,847
Unrestricted interest on investments	12,145
Bond proceeds	1,624,946
Other general receipts	29,549
Total receipts	<u>3,518,165</u>
Disbursements:	
Public safety	131,999
Public works	577,750
Culture and recreation	341,243
General government	198,939
Debt service	420,162
Capital projects	857,965
Total disbursements	<u>2,528,058</u>
Change in cash basis net assets before transfers	990,107
Transfers, net	<u>(53,575)</u>
Change in cash basis net assets	936,532
Cash basis net assets beginning of year	942,458
Cash basis net assets end of year	<u><u>\$ 1,878,990</u></u>



The increase in cash basis net asset is due primarily to bond proceeds of approximately \$1,625,000 and fewer capital project disbursements than anticipated in fiscal year 2011.

Changes in Cash Basis Net Assets of Business Type Activities	
	Year ended June 30, 2011
Receipts:	
Program receipts:	
Charges for service:	
Water	\$ 305,308
Sewer	389,467
Recoupment fees	46,800
General receipts:	
Unrestricted interest on investments	7,761
Bond proceeds	333,412
Total receipts	<u>1,082,748</u>
Disbursements:	
Water	587,757
Sewer	364,262
Total disbursements	<u>952,019</u>
Change in cash basis net assets before transfers	130,729
Transfers, net	<u>53,575</u>
Change in cash basis net assets	184,304
Cash basis net assets beginning of year	<u>822,420</u>
Cash basis net assets end of year	<u><u>\$ 1,006,724</u></u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$822,420 at June 30, 2010 to \$1,006,724 at June 30, 2011. The increase is due primarily to an increase in water and sewer rates from fiscal year 2010 to fiscal year 2011. Additionally, the Enterprise, Water Fund received bond proceeds of \$333,412 and had project disbursements for improvements to the well system totaling \$314,655.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As City of Solon completed the year, its governmental funds reported a combined fund balance of \$1,878,990, an increase of approximately \$937,000 above last year's total of \$942,458. The following are the major reasons for the changes in fund balances of the major funds from the prior year.

- The General Fund cash balance increased \$78,748 from the prior year to \$372,797. The increase is due to an increase in property tax due to the property valuation increasing and a reduction in operating disbursements due, in part, to about \$64,000 less in public works disbursements than in fiscal year 2010.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$24,854 to \$54,236. This increase was attributable to receiving more tax increment financing than required for long term debt payments.
- The Special Revenue, Library Trust Fund cash balance increased \$15,045 to a year-end balance of \$456,375. This increase is due to receipts exceeding disbursements in the Library Trust Fund.

- The Debt Service Fund cash balance increased \$417 to \$9,833. The change was attributable to receipts and transfers exceeding disbursements in fiscal year 2011.
- The Capital Projects Fund cash balance increased \$743,022 to a year-end balance of \$734,890 at June 30, 2011. The increase was due to bond proceeds of \$1,624,946 exceeding the capital project disbursements of \$857,965.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$86,983 to \$288,204, due primarily to operating receipts exceeding operating disbursements during the year. Additionally, the Enterprise, Water Fund received bond proceeds of \$333,412 and had project disbursements for improvements to the well system totaling \$314,655.
- The Enterprise, Sewer Fund cash balance increased \$13,855 to \$188,120, due primarily to operating receipts exceeding operating disbursements in fiscal year 2011.
- The Enterprise, Recoupment Fees Fund cash balance increased \$83,466 to \$530,400. The increase is due primarily to recoupment fees received and payments received on an internal tax increment financing loan. The cash balance is required to be used for improvements to capital facilities in the water and sewer systems.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 18, 2011 and resulted in an increase in operating disbursements related to projected project activity in the Water Fund.

The City’s receipts were \$5,905 more than budgeted. This was primarily due to the City receiving more in licenses and permits and use of money and property than anticipated.

Total disbursements were \$959,202 less than the amended budget. Actual disbursements for the business type activities and capital projects functions were \$454,971 and \$316,640, respectively, less than the amended budget. This was primarily due to the City anticipating more in project disbursements for business type activities and capital projects than realized. Additionally, operating disbursements were less than anticipated for the culture and recreation function.

Disbursements in the public works function exceeded the amount budgeted prior to the May 18, 2011 budget amendment.

DEBT ADMINISTRATION

At June 30, 2011, the City had \$4,440,712 in bonds and other long-term debt outstanding, compared to \$2,824,000 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2011	2010
General obligation bonds and notes	\$ 3,444,000	2,074,000
Revenue bonds	996,712	750,000
Total	\$ 4,440,712	2,824,000

Debt increased as a result of issuing general obligation bonds for various street and sidewalk projects. In addition, the City issued a state revolving fund water revenue bond for improvements to the City's well.

The Constitution of the State of Iowa limits the amount of general obligation debt cities can issue to 5% of the assessed value of all taxable property within the City's corporate limits. The City's outstanding general obligation debt of \$3,444,000, plus tax increment financing rebate and economic development agreements of \$31,100 and \$10,000, respectively, net of cash on hand to service the debt of \$64,069, totals \$3,421,031 and is below its constitutional debt limit of approximately \$6,747,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

Formulation of the fiscal year 2012 budget was impacted by several factors. The continuing growth in the City of Solon helps to increase the available tax base, but it also increases the scope of services the City must provide. The City's fiscal year 2012 assessed value has increased \$10,009,273 from the fiscal year 2011 level. This will help Solon continue to be proactive in its planning and assist with projects such as the continuation of curb and gutter installation. In the coming year, Solon will focus on two street projects, including a streetscape project on its Main Street and the installation of turn lanes on Highway 1 at the 5th Street intersection. These projects are expected to have a significant impact on the Solon community. The financing for these projects has already been partially secured through the issuance of bonds in July 2010, with a second issuance expected in fiscal year 2013.

The fiscal year 2012 budget contains total receipts of \$2,855,885 and disbursements of \$3,178,236. The City has budgeted deficit spending due to the use of bond proceeds in reserve for use on capital projects during the year.

CONTACTING THE CITY'S FINANCIAL MANAGEMENT

This financial report is designed to provide our citizens, taxpayers, customers and creditors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Cassandra Lippincott, City Administrator, 223 S. Iowa St, City of Solon, Iowa 52333.

Basic Financial Statements

City of Solon

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2011

	Disbursements	Program Receipts	
		Charges for Service	Operating Grants, Contributions and Restricted Interest
Functions/Programs:			
Primary Government:			
Governmental activities:			
Public safety	\$ 131,999	74,852	-
Public works	577,750	101,197	235,491
Culture and recreation	341,243	61,780	148,062
General government	198,939	4,143	-
Debt service	420,162	-	-
Capital projects	857,965	-	-
Total governmental activities	2,528,058	241,972	383,553
Business type activities:			
Water	587,757	305,308	-
Sewer	364,262	389,467	-
Recoupment fees	-	46,800	-
Total business type activities	952,019	741,575	-
Total Primary Government	\$ 3,480,077	983,547	383,553
Component Unit:			
Library Foundation	\$ 5,553	-	77,039
General Receipts and Transfers:			
Property and other city tax levied for:			
General purposes			
Debt service			
Capital improvements			
Tax increment financing			
Local option sales tax			
Unrestricted interest on investments			
Bond proceeds, net of \$27,225 discount and \$2,171 of accrued interest			
Miscellaneous			
Transfers			
Total general receipts and transfers			
Change in cash basis net assets			
Cash basis net assets beginning of year			
Cash basis net assets end of year			
Cash Basis Net Assets			
Restricted:			
Debt service			
Library purposes			
Capital improvements			
Streets			
Other purposes			
Unrestricted			
Total cash basis net assets			

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets				Component
Primary Government			Unit	
Governmental Activities	Business Type Activities	Total	Library Foundation	
(57,147)	-	(57,147)	-	
(241,062)	-	(241,062)	-	
(131,401)	-	(131,401)	-	
(194,796)	-	(194,796)	-	
(420,162)	-	(420,162)	-	
(857,965)	-	(857,965)	-	
<u>(1,902,533)</u>	<u>-</u>	<u>(1,902,533)</u>	<u>-</u>	
-	(282,449)	(282,449)	-	
-	25,205	25,205	-	
-	46,800	46,800	-	
<u>-</u>	<u>(210,444)</u>	<u>(210,444)</u>	<u>-</u>	
<u>(1,902,533)</u>	<u>(210,444)</u>	<u>(2,112,977)</u>	<u>-</u>	
			<u>71,486</u>	
564,503	-	564,503	-	
18,696	-	18,696	-	
38,729	-	38,729	-	
461,225	-	461,225	-	
142,847	-	142,847	-	
12,145	7,761	19,906	-	
1,624,946	333,412	1,958,358	-	
29,549	-	29,549	-	
(53,575)	53,575	-	-	
<u>2,839,065</u>	<u>394,748</u>	<u>3,233,813</u>	<u>-</u>	
936,532	184,304	1,120,836	71,486	
942,458	822,420	1,764,878	9,763	
<u>\$ 1,878,990</u>	<u>1,006,724</u>	<u>2,885,714</u>	<u>81,249</u>	
\$ 64,069	105,147	169,216	-	
456,375	-	456,375	81,249	
886,832	513,260	1,400,092	-	
53,383	-	53,383	-	
45,534	-	45,534	-	
372,797	388,317	761,114	-	
<u>\$ 1,878,990</u>	<u>1,006,724</u>	<u>2,885,714</u>	<u>81,249</u>	

City of Solon

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	General	Urban	Library Trust
Renewal Tax Increment			
Receipts:			
Property tax	\$ 497,187	-	-
Tax increment financing	-	461,225	-
Other city tax	-	-	-
Licenses and permits	90,569	-	-
Use of money and property	11,209	965	5,975
Intergovernmental	224,417	-	-
Charges for service	137,177	-	-
Miscellaneous	31,326	-	17,937
Total receipts	991,885	462,190	23,912
Disbursements:			
Operating:			
Public safety	131,999	-	-
Public works	462,801	-	-
Culture and recreation	302,919	-	8,867
General government	177,373	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,075,092	-	8,867
Excess (deficiency) of receipts over (under) disbursements	(83,207)	462,190	15,045
Other financing sources (uses):			
Bond proceeds, net of \$27,225 discount and \$2,171 of accrued interest	-	-	-
Operating transfers in	170,355	-	-
Operating transfers out	(8,400)	(437,336)	-
Total other financing sources (uses)	161,955	(437,336)	-
Net change in cash balances	78,748	24,854	15,045
Cash balances beginning of year	294,049	29,382	441,330
Cash balances end of year	\$ 372,797	54,236	456,375
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	54,236	-
Library purposes	-	-	456,375
Capital improvements	-	-	-
Streets	-	-	-
Other purposes	-	-	-
Assigned for historical preservation	8,245	-	-
Unassigned	364,552	-	-
Total cash basis fund balances	\$ 372,797	54,236	456,375

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
18,696	38,729	67,316	621,928
-	-	-	461,225
-	-	142,847	142,847
-	-	-	90,569
20	7,842	1,519	27,530
-	-	137,563	361,980
-	-	-	137,177
-	-	700	49,963
18,716	46,571	349,945	1,893,219
-	-	-	131,999
-	-	114,949	577,750
-	-	29,457	341,243
-	-	21,566	198,939
310,635	-	109,527	420,162
-	857,965	-	857,965
310,635	857,965	275,499	2,528,058
(291,919)	(811,394)	74,446	(634,839)
-	1,624,946	-	1,624,946
292,336	-	-	462,691
-	(70,530)	-	(516,266)
292,336	1,554,416	-	1,571,371
417	743,022	74,446	936,532
9,416	(8,132)	176,413	942,458
9,833	734,890	250,859	1,878,990
9,833	-	-	64,069
-	-	-	456,375
-	734,890	151,942	886,832
-	-	53,383	53,383
-	-	45,534	45,534
-	-	-	8,245
-	-	-	364,552
9,833	734,890	250,859	1,878,990

City of Solon

City of Solon

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2011

	Enterprise			
	Water	Sewer	Fees	Total
Operating receipts:				
Charges for service	\$ 297,682	388,153	46,800	732,635
Miscellaneous	7,626	-	-	7,626
Total operating receipts	305,308	388,153	46,800	740,261
Operating disbursements:				
Business type activities	229,993	254,402	-	484,395
Excess of operating receipts over operating disbursements	75,315	133,751	46,800	255,866
Non-operating receipts (disbursements):				
Interest on investments	1,691	2,764	4,620	9,075
Bond proceeds	333,412	-	-	333,412
Debt service	(43,109)	(89,885)	-	(132,994)
Capital outlay	(314,655)	(19,975)	-	(334,630)
Net non-operating receipts (disbursements)	(22,661)	(107,096)	4,620	(125,137)
Excess of receipts over disbursements	52,654	26,655	51,420	130,729
Operating transfers in	47,129	-	145,000	192,129
Operating transfers out	(12,800)	(12,800)	(112,954)	(138,554)
Total transfers in (out)	34,329	(12,800)	32,046	53,575
Net change in cash balances	86,983	13,855	83,466	184,304
Cash balances beginning of year	201,221	174,265	446,934	822,420
Cash balances end of year	\$ 288,204	188,120	530,400	1,006,724
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 5,061	7,946	92,140	105,147
Capital improvements	-	75,000	438,260	513,260
Unrestricted	283,143	105,174	-	388,317
Total cash basis fund balances	\$ 288,204	188,120	530,400	1,006,724

See notes to financial statements.

City of Solon

Notes to Financial Statements

June 30, 2011

(1) Summary of Significant Accounting Policies

The City of Solon is a political subdivision of the State of Iowa located in Johnson County. It was first incorporated in 1840 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 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. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, City of Solon has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Solon (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Solon Public Library Foundation (Foundation) was established pursuant to Section 501 (c)(3) of the Internal Revenue Code to solicit and receive donations, gifts and grants to provide supplementary funding to strengthen and enrich the Solon Public Library. In accordance with criteria set forth by the Governmental Accounting Standards Board, the Foundation meets the definition of a component unit which should be discretely presented. Based on these criteria, the economic resources received and held by the Foundation are substantially for the direct benefit of the City of Solon Public Library.

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: Johnson County Assessor's Conference Board, Johnson County Emergency Management Commission, Johnson County Landfill Commission and Johnson County Joint E911 Service Board.

B. Basis of Presentation

Government-wide Financial Statement - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in the following categories/components:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Net assets restricted through enabling legislation consist of \$530,400 of recoupment fees collected for capital improvements.

Unrestricted net assets consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts 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 on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise 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 receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs not paid from other funds.

Special Revenue:

The Urban Renewal Tax Increment Fund is used to account for tax increment financing collections and the repayment of tax increment financing indebtedness.

The Library Trust Fund is used to account for receipts from a bequest and donations to be used for library operations and future expansion.

The Debt Service Fund is utilized to account for property tax and other revenues 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.

The City reports the following major proprietary funds:

The Enterprise, Water Fund accounts for the operation and maintenance of the City's water system.

The Enterprise, Sewer Fund accounts for the operation and maintenance of the City's wastewater treatment and sanitary sewer system.

The Enterprise, Recoupment Fees Fund is maintained to account for fees collected to be used solely to acquire, equip and make improvements to City public capital facilities.

C. Measurement Focus and Basis of Accounting

The City maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Under the terms of grant agreements, the City funds certain programs by a combination of specific cost-reimbursement grants, categorical block grants and general receipts. Thus, when program disbursements are paid, there are both restricted and unrestricted cash basis net assets available to finance the program. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then by general receipts.

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

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Governmental Cash Basis Fund Balances

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

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.

Assigned – Amounts the City Council intends to use for specific purposes.

Unassigned – All amounts not included in the preceding classifications.

E. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2011, disbursements exceeded the amount budgeted in the public works function prior to the budget amendment on May 18, 2011.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2011 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

The City had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No.3, as amended by Statement No. 40.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds are as follows:

Year Ending June 30,	General Obligation Bonds/Notes		Revenue Bonds		Total	
	Principal	Interest	Principal	Interest	Principal	Interest
2012	\$ 285,000	136,556	55,000	32,603	340,000	169,159
2013	300,000	126,158	60,000	30,265	360,000	156,423
2014	311,000	114,368	60,000	27,685	371,000	142,053
2015	346,000	101,840	65,000	25,045	411,000	126,885
2016	256,000	87,920	70,000	22,120	326,000	110,040
2017-2021	1,333,000	285,590	385,000	59,190	1,718,000	344,780
2022-2025	613,000	61,905	-	-	613,000	61,905
Total	\$ 3,444,000	914,337	695,000	196,908	4,139,000	1,111,245

The Code of Iowa requires principal and interest on general obligation bonds be paid from the Debt Service Fund. However, \$109,527 of general obligation bond principal and interest was paid from the Special Revenue, Local Option Sales Tax Fund during the year ended June 30, 2011.

General Obligation Bonds

On July 2010, the City issued \$1,650,000 of general obligation corporate purpose bonds to pay the costs of constructing street, sidewalk, curb and gutter, water, sanitary sewer and storm sewer improvements. During fiscal year 2011, the City paid principal of \$60,000 and interest of \$49,002 on the newly issued debt.

Interfund Loans

On November 17, 2010, the City approved an interfund loan totaling \$120,000 from the Enterprise, Recoupment Fees Fund to the General Fund to pay for street improvements in the urban renewal area. Payments are to be made on June 1 of each year to the extent there are incremental property tax receipts available for such purpose which have been allocated to the Special Revenue, Urban Renewal Tax Increment Fund. As of June 30, 2011, the City has loaned a total of \$452,779 to the General Fund for various projects and \$386,825 has been repaid to the Enterprise, Recoupment Fees Fund. The outstanding loan balance at June 30, 2011 totaled \$65,954.

Sewer Revenue Bonds

The City has pledged future sewer customer receipts, net of specified operating disbursements, to repay \$950,000 of sewer revenue bonds issued May 1, 2006. Proceeds from the bonds provided financing for sewer improvements and extensions. The bonds are payable solely from sewer customer net receipts and are payable through 2021. The total principal and interest remaining to be paid on the bonds is \$891,908. For the year ended June 30, 2011, principal and interest paid and total customer net receipts were \$89,885 and \$133,751, respectively. Annual principal and interest payments on the bonds required approximately 67% of net receipts.

The resolution providing for the issuance of the sewer revenue bonds includes the following provisions:

- (a) The bonds will only be redeemed from the future earnings of the enterprise activity and the bond holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a sewer revenue bond sinking account within the Enterprise Fund for the purpose of making the bond principal and interest payments when due.
- (c) At the delivery of the bonds, \$92,140 shall be set apart and paid to a sewer reserve account. If at any time the balance of the reserve account has been reduced below this amount, additional funds shall be deposited to the reserve account to restore the reserve account to the required reserve balance. The City has restricted a portion of the Enterprise, Recoupment Fees Fund for this purpose.
- (d) All funds remaining in the sewer account after payment of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue improvement account within the Enterprise Fund until a minimum of \$75,000 is accumulated. This account is restricted for the purpose of paying for any improvement, extension or repair to the system or for bond and interest payments which the other accounts might be unable to cover.

Water Revenue Bond

On December 10, 2010, the City entered into a State Revolving Fund (SRF) loan and disbursement agreement with the Iowa Finance Authority for the issuance of up to \$730,000 of water revenue bonds with interest at 3% per annum. The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance. The bond was issued pursuant to the provisions of Chapter 384.24A and 384.83 of the Code of Iowa to pay the cost of construction of certain improvements and extensions to the water treatment facilities. The City will draw down funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred. At June 30, 2011, the City had drawn \$333,412 of the \$730,000 authorized amount. An initiation fee of \$7,300 (1% of the authorized borrowing for the water revenue bond) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the water revenue bond drawn by the City during the year ended June 30, 2011. A final repayment schedule has not yet been adopted. During the year ended June 30, 2011, the City paid principal of \$39,000 and interest of \$4,109 on the bond under a preliminary repayment schedule.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue bond. The bond is payable solely from water customer net receipts. Annual principal and interest payments on the bond required approximately 57% of net receipts. The total amount of principal and interest remaining to be paid on the bond at June 30, 2011 is not available since a final repayment schedule has not been adopted. For the current year, principal and interest paid and total customer net receipts were \$43,109 and \$75,315, respectively.

The resolution providing for the issuance of the water revenue bond issued under the loan agreement includes the following provisions:

- (a) The bond will only be redeemed from the future earnings of the enterprise activity and the bond holder holds a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to a separate water revenue bond sinking account for the purpose of making the bond principal and interest payments when due.
- (c) User rates shall be established at a level which produces and maintains net revenues at a level not less than 110% of the amount of principal and interest on the bond falling due in the same year.

The City has not established the water revenue bond sinking account as required.

(4) Pension and Retirement Benefits

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

Most regular plan members are required to contribute 4.50% of their annual covered salary and the City is required to contribute 6.95% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2011 was \$26,801, equal to the required contribution for the year.

(5) Other Postemployment Benefits (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for employees and retirees and their spouses. There are six active and no retired members in the plan. Retired participants must be age 55 or older at retirement.

The medical/prescription drug benefits are provided through a fully-insured plan with Wellmark. Retirees under age 65 would pay the same premium for the medical/prescription drug benefits as active employees.

Funding Policy - The contribution requirements of plan members are established and may be amended by the City. The City currently finances the benefit plan on a pay-as-you-go basis. The most recent active member monthly premiums for the City and plan members are \$599 for single coverage and \$1,498 for family coverage. The same monthly premiums would apply to retirees. For the year ended June 30, 2011, the City contributed 100%, or \$42,524, to the plan.

(6) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation hours for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation payable to employees at June 30, 2011, primarily relating to the General Fund, is approximately \$16,100. This liability has been computed based on rates of pay in effect at June 30, 2011.

(7) 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 deductibles 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.

(8) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2011 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Capital Projects	\$ 31,801
	Enterprise:	
	Water	12,800
	Sewer	12,800
	Recoupment Fees	112,954
		<u>170,355</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	292,336
Enterprise:		
Water	General	8,400
	Capital Projects	38,729
Recoupment Fees	Special Revenue:	
	Urban Renewal Tax Increment	145,000
Total		<u>\$ 654,820</u>

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

(9) Construction Commitments

During the year ended June 30, 2011, the City entered into construction contracts totaling \$796,973 for street improvements and construction of a well house. Unpaid contract commitments as of June 30, 2011 totaled \$567,662 and will be paid as work on the projects progress. The projects are funded through general obligation and water revenue bonds.

(10) Urban Renewal Project Rebate and Economic Development Agreements

Project Rebate Agreements

The City has entered into three tax increment financing rebate agreements. The City has agreed to assist in urban renewal projects by rebating incremental property tax paid by the participating companies with respect to the improvements set forth in the urban renewal plan. The incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa from the participating companies will be rebated for a period of years determined by each agreement, beginning with the tax year in which the property tax on the completed value of the improvements is first paid. The agreements end by fiscal year 2016. The total amount that will be rebated in any fiscal year for the tax increment financing agreements is based on the assessed value of the land and buildings less the frozen property values times the property tax values for the City, Johnson County and the Solon Community School District, less the portion attributable to debt service for that year. The City has made no rebate payments on these agreements at June 30, 2011. The estimated outstanding principal balance of the rebate agreements at June 30, 2011 is approximately \$444,500.

Economic Development Agreements

On November 29, 2007, the City entered into an agreement with the Solon Development Corporation (Corporation) to provide the Corporation a \$58,900 grant to carry out economic development activities within the City's urban renewal area. The grant is to be annually appropriated from the incremental property tax to be received by the City under Chapter 403.19 of the Code of Iowa. Pursuant to the agreement, an initial payment of \$8,900 was due January 15, 2008 and subsequent annual payments of \$10,000 are due over a five year period. However, the City has made payments to the Corporation only upon request.

The above agreements are not general obligations of the City. However, the agreements are subject to the constitutional debt limitation of the City.

The agreements described above include an annual appropriation clause and only the amount payable in the succeeding year is subject to the constitutional debt limitation.

(11) Subsequent Event

On September 21, 2011, the City entered into a tax increment financing development agreement with Solon Nursing Care Center Inc. to rebate an amount equal to 65% of the estimated incremental property tax anticipated to be paid with respect to the property. The payments will begin on June 1, 2014 and end on June 1, 2018, with total payments not to exceed \$250,000.

City of Solon

Required Supplementary Information

City of Solon

Budgetary Comparison Schedule
of Receipts, Disbursements, and Changes in Balances –
Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2011

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 621,928	-	621,928
Tax increment financing	461,225	-	461,225
Other city tax	142,847	-	142,847
Licenses and permits	90,569	-	90,569
Use of money and property	27,530	9,075	36,605
Intergovernmental	361,980	-	361,980
Charges for service	137,177	732,635	869,812
Miscellaneous	49,963	7,626	57,589
Total receipts	<u>1,893,219</u>	<u>749,336</u>	<u>2,642,555</u>
Disbursements:			
Public safety	131,999	-	131,999
Public works	577,750	-	577,750
Culture and recreation	341,243	-	341,243
Community and economic development	-	-	-
General government	198,939	-	198,939
Debt service	420,162	-	420,162
Capital projects	857,965	-	857,965
Business type activities	-	952,019	952,019
Total disbursements	<u>2,528,058</u>	<u>952,019</u>	<u>3,480,077</u>
Excess (deficiency) of receipts over (under) disbursements	(634,839)	(202,683)	(837,522)
Other financing sources, net	1,571,371	386,987	1,958,358
Excess of receipts and other financing sources over disbursements and other financing uses	936,532	184,304	1,120,836
Balances beginning of year	942,458	822,420	1,764,878
Balances end of year	<u>\$ 1,878,990</u>	<u>1,006,724</u>	<u>2,885,714</u>

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total Variance
619,416	619,416	2,512
453,336	453,336	7,889
156,244	156,244	(13,397)
16,175	16,175	74,394
26,170	26,170	10,435
283,674	389,674	(27,694)
872,335	897,335	(27,523)
70,800	78,300	(20,711)
<u>2,498,150</u>	<u>2,636,650</u>	<u>5,905</u>
148,419	148,419	16,420
504,720	616,220	38,470
362,694	418,194	76,951
16,000	16,000	16,000
192,115	218,215	19,276
440,636	440,636	20,474
1,174,605	1,174,605	316,640
685,265	1,406,990	454,971
<u>3,524,454</u>	<u>4,439,279</u>	<u>959,202</u>
(1,026,304)	(1,802,629)	965,107
<u>1,175,000</u>	<u>1,896,725</u>	<u>61,633</u>
148,696	94,096	1,026,740
1,870,757	1,870,757	(105,879)
<u>2,019,453</u>	<u>1,964,853</u>	<u>920,861</u>

City of Solon

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2011

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. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

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, one budget amendment increased budgeted disbursements by \$914,825. The budget amendment is reflected in the final budgeted amounts.

Disbursements in the public works function exceeded the amount budgeted prior to the May 18, 2011 budget amendment.

Other Supplementary Information

City of Solon

Schedule of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2011

	Special Revenue		
	Road Use Tax	I-Jobs	Employee Benefits
Receipts:			
Property tax	\$ -	-	67,316
Other city tax	-	-	-
Use of money and property	-	-	-
Intergovernmental	131,308	6,255	-
Miscellaneous	-	-	-
Total receipts	131,308	6,255	67,316
Disbursements:			
Operating:			
Public works	105,707	-	9,242
Culture and recreation	-	-	29,457
General government	-	-	21,566
Debt service	-	-	-
Total disbursements	105,707	-	60,265
Net change in cash balances	25,601	6,255	7,051
Cash balances beginning of year	16,386	5,141	3,807
Cash balances end of year	\$ 41,987	11,396	10,858
Cash Basis Fund Balances			
Restricted for:			
Capital improvements	\$ -	-	-
Streets	41,987	11,396	-
Other purposes	-	-	10,858
Total cash basis fund balances	\$ 41,987	11,396	10,858

See accompanying independent auditor's report.

Local Option Sales Tax	Playground Trust	Fire Trust	Total
-	-	-	67,316
142,847	-	-	142,847
826	693	-	1,519
-	-	-	137,563
-	700	-	700
143,673	1,393	-	349,945
-	-	-	114,949
-	-	-	29,457
-	-	-	21,566
109,527	-	-	109,527
109,527	-	-	275,499
34,146	1,393	-	74,446
117,796	32,601	682	176,413
151,942	33,994	682	250,859
151,942	-	-	151,942
-	-	-	53,383
-	33,994	682	45,534
151,942	33,994	682	250,859

City of Solon
 Schedule of Indebtedness
 Year ended June 30, 2011

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds and notes:			
Highway 1 Water Treatment	Jul 1, 2002	4.45-5.10%	\$ 1,180,000
East Side Relief Sewer	Oct 27, 2003	3.00	250,000
Wastewater Treatment Plant	Dec 1, 2005	3.55-4.80	1,405,000
Street Improvements	Jul 1, 2008	3.00-4.25	315,000
Street and Sidewalk Improvements	Jul 15, 2010	1.40-4.10	1,650,000
Total			
Revenue bonds:			
Sewer	May 1, 2006	3.95-5.10%	\$ 950,000
Water	Dec 10, 2010	3.00 *	340,712
Total			

* The agreement also requires the City to annually pay a .25% servicing fee on the outstanding principal balance.

See accompanying independent auditor's report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
530,000	-	100,000	430,000	25,845
154,000	-	10,000	144,000	4,620
1,110,000	-	80,000	1,030,000	49,242
280,000	-	30,000	250,000	10,928
-	1,650,000	60,000	1,590,000	49,002
\$ 2,074,000	1,650,000	280,000	3,444,000	139,637
750,000	-	55,000	695,000	34,885
-	340,712	39,000	301,712	4,109
\$ 750,000	340,712	94,000	996,712	38,994

City of Solon
Bond and Note Maturities
June 30, 2011

Year Ending June 30,	General Obligation Bonds/Notes					
	Highway 1 Water Treatment		East Side Relief Sewer		Wastewater Treatment Plant	
	Issued June 1, 2002		Issued October 27, 2003		Issued December 1, 2005	
	Interest		Interest		Interest	
Rates	Amount	Rates	Amount	Rates	Amount	
2012	4.75%	\$ 100,000	3.00%	\$ 10,000	4.05	\$ 85,000
2013	4.90	110,000	3.00	10,000	4.10	85,000
2014	5.00	115,000	3.00	11,000	4.20	90,000
2015	5.10	105,000	3.00	11,000	4.30	95,000
2016		-	3.00	11,000	4.40	100,000
2017		-	3.00	12,000	4.50	105,000
2018		-	3.00	12,000	4.60	110,000
2019		-	3.00	13,000	4.70	115,000
2020		-	3.00	13,000	4.75	120,000
2021		-	3.00	13,000	4.80	125,000
2022		-	3.00	14,000		-
2023		-	3.00	14,000		-
2024		-		-		-
2025		-		-		-
Total		<u>\$ 430,000</u>		<u>\$ 144,000</u>		<u>\$ 1,030,000</u>

Year Ending June 30,	Revenue Bonds	
	Sewer	
	Issued May 1, 2006	
	Interest	
Rates	Amount	
2012	4.25%	\$ 55,000
2013	4.30	60,000
2014	4.40	60,000
2015	4.50	65,000
2016	4.60	70,000
2017	4.70	70,000
2018	4.80	75,000
2019	4.90	75,000
2020	5.00	80,000
2021	5.10	85,000
Total		<u>\$ 610,000</u>

See accompanying independent auditor's report.

Street Improvements		Street and Sidewalk Improvements			Total
Issued July 1, 2008		Issued July 15, 2010			
Interest Rates		Interest Rates		Amount	Total
3.55%	\$ 30,000	1.40%	\$ 60,000		
3.70	35,000	2.20	60,000		300,000
3.85	35,000	2.20	60,000		311,000
4.00	35,000	2.75	100,000		346,000
4.10	35,000	3.00	110,000		256,000
4.20	40,000	3.20	115,000		272,000
4.25	40,000	3.40	120,000		282,000
	-	3.60	125,000		253,000
	-	3.70	125,000		258,000
	-	3.80	130,000		268,000
	-	4.00	135,000		149,000
	-	4.00	145,000		159,000
	-	4.05	150,000		150,000
	-	4.10	155,000		155,000
	<u>\$ 250,000</u>		<u>\$ 1,590,000</u>		<u>3,444,000</u>

City of Solon



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Auditor of State

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Des Moines, Iowa 50319-0004

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

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, the discretely presented component unit, each major fund and the aggregate remaining fund information of the City of Solon, Iowa, as of and for the year ended June 30, 2011, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated February 28, 2012. Our report on the financial statements, which were prepared in conformity with an other comprehensive basis of accounting, expressed qualified opinions since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. Except as noted in the Independent Auditor's Report, we conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

The management of the City of Solon is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City of Solon's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City of Solon's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City of Solon's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses and, therefore, there can be no assurance all deficiencies, significant deficiencies or material weaknesses have been identified. However, as described in the accompanying Schedule of Findings, we identified certain deficiencies in internal control over financial reporting we consider to be material weaknesses and other deficiencies we consider to be significant deficiencies.

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 a material misstatement of the City of Solon's financial statements will not be prevented or detected and corrected on a timely basis. We consider the deficiencies described in the accompanying Schedule of Findings as items (A) through (C) to be material weaknesses.

A significant deficiency is a deficiency, or a combination of deficiencies, in internal control which is less severe than a material weakness, yet important enough to merit attention by those charged with governance. We consider the deficiencies described in the accompanying Schedule of Findings as items (D) through (F) to be significant deficiencies.

Compliance and Other Matters

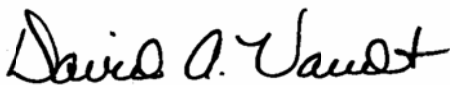
As part of obtaining reasonable assurance about whether the City of Solon's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters which are described in the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2011 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

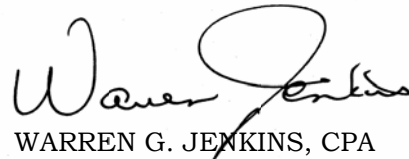
The City of Solon's responses to findings identified in our audit are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the City's responses, we did not audit the City of Solon's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Solon and other parties to whom the City of Solon may report and is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Solon during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.



DAVID A. VAUDT, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

February 28, 2012

City of Solon

Schedule of Findings

Year ended June 30, 2011

INTERNAL CONTROL DEFICIENCIES:

(A) Segregation of Duties – One important aspect of internal accounting control is segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. One person has control over each of the following areas:

- (1) Accounting system – performing all general accounting functions, including journal entries and having custody of assets.
- (2) Cash – custodian, reconciliation and cash receipts.
- (3) Receipts – collecting, depositing, journalizing and posting.
- (4) Utility receipts – billing, collecting and reconciling.
- (5) Disbursements – mailing, posting and reconciling.
- (6) Payroll – preparation and distribution.
- (7) Financial reporting – preparing, reconciling and distributing without independent review of journal entries.
- (8) Information systems (computer usage) – performing all general accounting functions and controlling all data input and output.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Evidence of review of reconciliations should be indicated by initials of the independent reviewer and the date of the review.

Response – The City will review its internal control procedures to identify ways to change procedures to strengthen internal control. Reconciliations will be reviewed and initialed and dated to indicate the time of review.

Conclusion – Response accepted.

(B) Financial Reporting – During the audit, we identified a material amount of building inspection fee receipts misclassified as “charges for service” rather than “licenses and permits”. We also identified a material transfer from the General Fund to the Enterprise, Water Fund approved by the City Council on November 17, 2010 which was not recorded in the financial statements. Adjustments were subsequently made by the City to properly report the amounts in the City’s financial statements.

Recommendation – The City should implement procedures to ensure building inspection fee receipts are properly recorded in the City’s financial statements. In addition, the City should ensure all transfers are properly approved.

Response – The City has changed the account number for building inspector fees and shall budget the fees as license and permit fees in the future. The City will ensure all approved transfers are properly recorded.

Conclusion – Response accepted.

City of Solon

Schedule of Findings

Year ended June 30, 2011

- (C) Reconciliation of Utility Billings, Collections and Delinquent Accounts – Utility billings, collections and delinquent accounts were not reconciled throughout the year.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquent accounts for each billing period. The Council or a Council-designated independent person should receive the reconciliation and monitor delinquencies.

Response – The City will adopt a system to reconcile utility billings, collections and delinquent accounts and have a Council member or designated independent person monitor delinquencies.

Conclusion – Response accepted.

- (D) Computer Systems – During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine activities, from a control standpoint, were designed to provide reasonable assurance regarding the achievement of objectives in the reliability of financial reporting, effectiveness and efficiency of operations and compliance with applicable laws and regulations. The following weaknesses in the City's computer systems were noted:

The City does not have written policies for:

- Requiring staff to log off unattended computers.
- Requiring the maintenance of password privacy and confidentiality.
- Requiring passwords be changed at least every 60-90 days.
- Requiring password length of a minimum of 8 characters, including special characters.
- Requiring a lockout function for incorrectly entered passwords.
- Requiring backups to be stored at an offsite location.
- Installing software from a vendor and ensuring only software licensed to the City is installed on computers.
- Computer usage policy.
- Usage of the internet.
- Personal use of computer equipment and software.

Also, the City does not have a written disaster recovery plan.

Recommendation – The City should develop written policies addressing the above items in order to improve the City's control over computer systems. A written disaster recovery plan should be developed. At a minimum, the plan should identify a listing of computer equipment needed for temporary processing, extra stocks of paper

City of Solon

Schedule of Findings

Year ended June 30, 2011

supplies, such as checks, warrants, purchase orders, etc., and be located off-site. Additionally, copies of user documentation and the disaster recovery plan should be maintained at an off-site location. The backup tapes should be stored at an offsite location.

Response – The City will develop a written policy addressing computer usage. The City will also develop a disaster recovery plan to aid the City in the event a disaster impacts the City’s office equipment and supplies. Backup tapes will be stored at an offsite location.

Conclusion – Response accepted.

- (E) Initial Listing – A listing of cash and checks received in the mail is not prepared, so an initial receipts listing can not be reconciled to deposits by an independent person.

Recommendation – A listing of all cash and receipts received in the mail should be prepared by a person other than accounting personnel. The listing should be compared to the receipt records by an independent person.

Response – A listing of all cash receipts received in the mail and in the City’s payment drop boxes will be prepared and reviewed by an independent person to ensure they have been properly recorded. In addition, a list of a sample of checks received in the mail and in the City’s payment drop boxes will be prepared and reviewed by an independent person to ensure they have been recorded properly.

Conclusion – Response accepted.

- (F) Countersignature of Checks - The City required only one signature for a check to be issued.

Recommendation - To strengthen internal control, each check should be prepared and signed by one person and then the supporting vouchers and invoices should be made available along with the check to a second or independent person for review and countersignature.

Response – The City shall have the checks compared to vouchers by a second or independent person and the checks signed by an independent person.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Solon

Schedule of Findings

Year ended June 30, 2011

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements in the public works function exceeded the amount budgeted prior to the May 18, 2011 budget amendment. Chapter 384.20 of the Code of Iowa states, in part, “Public monies may not be expended or encumbered except under an annual or continuing appropriation.”

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

Response – In the future, the City will amend the budget before disbursements exceed the approved budget.

Conclusion – Response accepted.

- (2) Questionable Disbursements - No disbursements we believe may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979 were noted.
- (3) Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- (4) Business Transactions - No business transactions between the City and City officials or employees were noted.
- (5) 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.
- (6) Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- (7) Deposits and Investments – No instances of non-compliance with the deposit and investment provisions of Chapters 12B and 12C of the Code of Iowa and the City's investment policy were noted.
- (8) Revenue Bonds - The City has not established a water revenue bond sinking account as required by the revenue bond resolution.

Recommendation - The City should establish the required water revenue bond sinking account and make the necessary transfers as required.

Response – The City has now established a sinking fund and shall make monthly transfers as required by the bond resolution.

Conclusion – Response accepted.

City of Solon

Schedule of Findings

Year ended June 30, 2011

- (9) Unclaimed Property – Chapter 556.11 of the Code of Iowa requires each City to report and remit obligations, including checks outstanding for more than two years, to the State Treasurer’s Office annually. The City did not remit these obligations as required.

Recommendation – The outstanding checks should be reviewed annually and items over two years old should be remitted to the State Treasurer’s Office as required.

Response – The City will review outstanding checks on an annual basis and remit items over two years old to the State Treasurer’s Office.

Conclusion – Response accepted.

- (10) Tax Increment Financing – The 2010 tax increment financing (TIF) debt certification to the County includes an internal loan from the Enterprise, Recoupment Fees Fund to the General Fund for \$120,000 for an urban renewal project paid from the General Fund. The \$120,000 represents projected costs for the coming year rather than actual costs incurred for the project since the last certification. Actual costs total \$112,954, \$7,046 less than the amount certified. Similar loans have been made from the Enterprise, Recoupment Fees Fund to the General Fund since fiscal year 2008. At June 30, 2011, a total of \$506,825 has been certified as TIF debt for projected costs while actual costs totaled only \$460,281, resulting in an over certification of \$46,544.

Recommendation – While the City is properly creating an internal loan for the TIF debt certification, the loan amount should be based on actual rather than projected costs. The City should decertify the \$46,544 over certified since fiscal year 2008.

Response – The City will reduce its next certification to recoup only debt which has already been incurred.

Conclusion – Response accepted.

- (11) Payment of General Obligation Bonds – Principal and interest on the City’s 2010 street and sidewalk general obligation bonds were paid from the Special Revenue, Local Option Sales Tax Fund. Chapter 384.4 of the Code of Iowa states, in part, “Moneys pledged or available to service general obligation notes, and received from sources other than property tax, must be deposited in the debt service fund.”

Recommendation – The City should transfer from the Special Revenue, Local Option Sales Tax Fund to the Debt Service Fund for future funding contributions. Payments on the bonds should be made from the Debt Service Fund.

Response – All future general obligation debt service payments will be paid from the Debt Service Fund.

Conclusion - Response accepted.

City of Solon

Schedule of Findings

Year ended June 30, 2011

- (12) Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains electronic images of the front of cancelled checks, but not the back of cancelled checks.

Recommendation – The City should retain an image of both the front and back of each cancelled check as required.

Response – The City will request the backs of the checks be included with the bank statement.

Conclusion - Response accepted.

City of Solon

Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Daniel L. Grady, Senior Auditor
Eric L. Rath, Assistant Auditor
Kelsey J. Kranz, Auditor Intern

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

Andrew E. Nielsen, CPA
Deputy Auditor of State