



OFFICE OF AUDITOR OF STATE
STATE OF IOWA

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Auditor of State

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NEWS RELEASE

FOR RELEASE

July 19, 2013

Contact: Andy Nielsen
515/281-5834

Auditor of State Mary Mosiman today released an audit report on the City of Solon, Iowa.

The City's receipts totaled \$5,114,337 for the year ended June 30, 2012, an 11.2% increase over the previous year. The receipts included \$718,952 in property tax, \$476,013 from tax increment financing, \$1,051,294 from charges for service, \$357,882 from operating grants, contributions and restricted interest, \$70,988 from capital grants, contributions and restricted interest, \$205,044 from local option sales tax, \$15,644 from unrestricted interest on investments, \$2,184,325 from bond proceeds and \$34,195 from other general receipts.

Disbursements for the year totaled \$3,246,248, a 6.7% decrease from the prior year, and included \$637,300 for public works, \$421,555 for debt service and \$400,295 for culture and recreation. Also, disbursements for business type activities totaled \$1,093,011.

The significant increase in receipts is primarily due to an increase in bond proceeds received for street projects and to refund general obligation notes, an increase in property tax and local option sales tax receipts and an increase in water and sewer rates.

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/1220-0488-B00F.pdf>.

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CITY OF SOLON
INDEPENDENT AUDITOR'S REPORTS
BASIC FINANCIAL STATEMENTS
SUPPLEMENTARY AND OTHER INFORMATION
SCHEDULE OF FINDINGS

JUNE 30, 2012

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City of Solon

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2012)		
Rick Jedlicka	Mayor	Jan 2012
Sue Ballantyne	Mayor Pro tem	Jan 2012
Mark Krall (Appointed)	Council Member	Nov 2011
Brad Kunkel	Council Member	Jan 2012
Cami Rasmussen	Council Member	Jan 2014
Steve Stange	Council Member	Jan 2014
Cassandra Lippincott	City Administrator	Indefinite
Susie Siddell	Clerk/Treasurer	Indefinite
Benjamin Hayek	Attorney	Indefinite
(After January 2012)		
Cami Rasmussen	Mayor	Jan 2014
Steve Stange	Mayor Pro tem	Jan 2014
Mark Krall	Council Member	Jan 2014
Jesse Ehlinger	Council Member	Jan 2016
Ron Herdliska	Council Member	Jan 2016
Brad Kunkel	Council Member	Jan 2016
Cassandra Lippincott	City Administrator	Indefinite
Susie Siddell	Clerk/Treasurer	Indefinite
James Martinek	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, 2012, 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.


In our opinion, 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, each major fund and the aggregate remaining fund information for the City of Solon as of June 30, 2012, 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 June 11, 2013 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.

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. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the year ended June 30, 2011 (which are not presented herein) and expressed qualified opinions on those financial statements, which were prepared in conformity with an other comprehensive basis of accounting, since we were unable to satisfy ourselves as to the distribution by fund of the total fund balance at July 1, 2010. The supplementary information included in Schedules 1 through 4 is presented for purposes of additional analysis and is not a

required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in our 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 financial statements or to the financial statements themselves, and other additional procedures in accordance with U.S. generally accepted auditing standards. In our opinion, the supplementary information is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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. Management's Discussion and Analysis and the budgetary comparison information on pages 7 through 12 and 30 through 32 are presented for the purposes of additional analysis and are not a required part of the basic financial statements. This information has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, we do not express an opinion or provide any assurance on it.


MARY MOSIMAN, CPA
Auditor of State


WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 11, 2013

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, 2012. We encourage readers to consider this information in conjunction with the City's financial statements, which follow.

2012 FINANCIAL HIGHLIGHTS

- Receipts of the City's governmental activities increased 11.8%, or approximately \$414,000, from fiscal year 2011 to fiscal year 2012. Property tax increased approximately \$97,000 and bond proceeds increased approximately \$196,000.
- Disbursements of the City's governmental activities decreased 14.8%, or approximately \$375,000, from fiscal year 2011 to fiscal year 2012. The decrease was primarily due to fewer capital project disbursements during fiscal year 2012 than in fiscal year 2011.
- The City's total cash basis net assets increased 64.7%, or approximately \$1,868,000, from June 30, 2011 to June 30, 2012. Of this amount, the net assets of the governmental activities increased approximately \$1,777,000, due primarily to bond proceeds and fewer capital projects, and the net assets of the business type activities increased approximately \$91,000, due primarily to an increase in water and sewer rates.

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.

Other information further explains and supports the financial statements with a comparison of the City's budget for the year.

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.

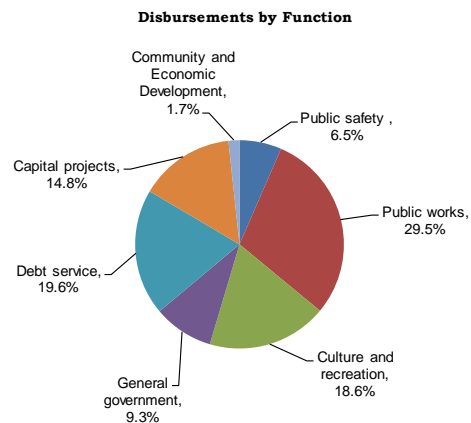
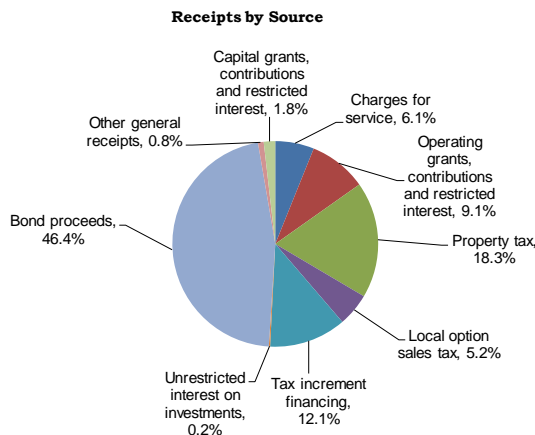
2) Proprietary funds account for the City's Enterprise Funds. Enterprise Funds are used to report business type activities. The City maintains three Enterprise Funds to provide separate information for the Water, Sewer and Recoupment Fees Funds, considered to be major funds of the City.

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 \$1,879,000 to approximately \$3,656,000. 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,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service	\$ 238,857	\$ 241,972
Operating grants, contributions and restricted interest	357,882	383,553
Capital grants, contributions and restricted interest	70,988	-
General receipts:		
Property tax	718,952	621,928
Tax increment financing	476,013	461,225
Local option sales tax	205,044	142,847
Unrestricted interest on investments	9,243	12,145
Bond proceeds	1,820,835	1,624,946
Other general receipts	34,195	29,549
Total receipts	3,932,009	3,518,165
Disbursements:		
Public safety	139,091	131,999
Public works	637,300	577,750
Culture and recreation	400,295	341,243
Community and economic development	37,058	-
General government	199,848	198,939
Debt service	421,555	420,162
Capital projects	318,090	857,965
Total disbursements	2,153,237	2,528,058
Change in cash basis net assets before transfers	1,778,772	990,107
Transfers, net	(1,638)	(53,575)
Change in cash basis net assets	1,777,134	936,532
Cash basis net assets beginning of year	1,878,990	942,458
Cash basis net assets end of year	\$ 3,656,124	1,878,990



The increase in cash basis net asset is due primarily to bond proceeds of approximately \$1,821,000 in the current fiscal year to be used to retire debt in future fiscal years and fewer capital project disbursements in fiscal year 2012.

Changes in Cash Basis Net Assets of Business Type Activities		
	Year ended June 30,	
	2012	2011
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 332,495	305,308
Sewer	413,007	389,467
Recoupment fees	66,935	46,800
General receipts:		
Unrestricted interest on investments	6,401	7,761
Bond proceeds	363,490	333,412
Total receipts	<u>1,182,328</u>	<u>1,082,748</u>
Disbursements:		
Water	694,727	587,757
Sewer	398,284	364,262
Total disbursements	<u>1,093,011</u>	<u>952,019</u>
Change in cash basis net assets before transfers	89,317	130,729
Transfers, net	1,638	53,575
Change in cash basis net assets	90,955	184,304
Cash basis net assets beginning of year	1,006,724	822,420
Cash basis net assets end of year	<u>\$ 1,097,679</u>	<u>1,006,724</u>

Total business type activities cash basis net assets increased from a year ago, increasing from \$1,006,724 at June 30, 2011 to \$1,097,679 at June 30, 2012. The increase is due primarily to an increase in water and sewer rates from fiscal year 2011 to fiscal year 2012. Additionally, the Enterprise, Water Fund received bond proceeds of approximately \$363,000 and had project disbursements for improvements to the well system of approximately \$364,000.

INDIVIDUAL MAJOR GOVERNMENTAL FUND ANALYSIS

As the City of Solon completed the year, its governmental funds reported a combined fund balance of \$3,656,124, an increase of approximately \$1,777,000 above last year's total of \$1,878,990. 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 \$24,551 from the prior year to \$397,348. The increase is primarily due to an increase in property tax due to increased property valuations and overall disbursements increased at a slower rate than receipts.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased \$3,884, or 7.2%, over the prior year.
- The Special Revenue, Library Trust Fund cash balance decreased \$3,980, or less than 1%, to a year-end balance of \$452,395.
- The Debt Service Fund cash balance increased \$1,201,423 to \$1,211,256. The increase was attributable to bond proceeds held at the end of the year to refund long-term debt in the future.

- The Capital Projects Fund cash balance increased \$390,671 to a year-end balance of \$1,125,561 at June 30, 2012. The increase was primarily due to bond proceeds of \$620,591 exceeding capital projects disbursements of \$318,090.

INDIVIDUAL MAJOR BUSINESS TYPE FUND ANALYSIS

- The Enterprise, Water Fund cash balance increased \$36,838 to \$325,042, due primarily to operating receipts exceeding operating disbursements during the year. Water rates increased approximately 3% over fiscal year 2011 rates.
- The Enterprise, Sewer Fund cash balance increased \$59,828 to \$247,948, due primarily to operating receipts exceeding operating disbursements during the year. Sewer rates increased approximately 6.1% over fiscal year 2011 rates.
- The Enterprise, Recoupment Fees Fund cash balance decreased \$5,711, or 1%, from fiscal year 2011.

BUDGETARY HIGHLIGHTS

Over the course of the year, the City amended its budget one time. The amendment was approved on May 16, 2012 and resulted in an increase in disbursements, primarily related to planned project activity in the Water Fund.

The City’s receipts were \$74,127 more than budgeted. This was, in part, due to the City receiving more in local option sales tax than anticipated.

Total disbursements were \$418,488 less than the amended budget. Actual disbursements for the business type activities and capital projects functions were \$92,285 and \$217,910, respectively, less than the amended budget. This was primarily due to the City anticipating more project disbursements than realized.

Disbursements in the business type activities function exceeded the amount budgeted prior to the May 16, 2012 budget amendment.

DEBT ADMINISTRATION

At June 30, 2012, the City had \$6,274,202 of bonds and other long-term debt outstanding, compared to \$4,440,712 last year, as shown below.

	Outstanding Debt at Year-End	
	June 30,	
	2012	2011
General obligation bonds and notes	\$ 5,009,000	3,444,000
Revenue bonds	1,265,202	996,712
Total	\$ 6,274,202	4,440,712

Debt increased as a result of issuing general obligation street improvement and refunding bonds for various street and sidewalk projects and to refund the City’s 2002, 2005 and 2008 general obligation bonds. In addition, the City drew down additional state revolving fund water revenue bond proceeds 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 \$5,009,000, plus tax increment financing rebate and economic development agreements of \$25,000 and \$56,900, respectively, net of cash on hand of \$1,269,376 available to service the debt, totals \$3,821,524 and is below the City’s constitutional debt limit of approximately \$7,265,000.

ECONOMIC FACTORS AND NEXT YEAR'S BUDGET AND RATES

The City of Solon is situated in a quickly developing area within the State of Iowa. In fiscal year 2013, the City will continue to benefit from a steady flow of housing development within the community. The growth is evidenced in the City's valuations which, in fiscal year 2013, have increased \$8,416,527 from the fiscal year 2012 level.

In fiscal year 2013, the City will see the completion of two major street projects – a central business district improvement project and the Highway 1/5th Street turn lane improvement project. These projects were funded with two bond issues in prior fiscal years. In addition, in fiscal year 2013, the City will begin work on acquiring a new City Hall. This project will be funded using tax increment financing revenue debt. The City has also refunded some existing debt, lowering the interest rate substantially and saving a significant amount of interest in the coming years.

The fiscal year 2013 budget includes total receipts of \$3,660,562 and disbursements of \$4,167,891. 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, 2012

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 139,091	66,505	-	-
Public works	637,300	106,083	209,436	-
Culture and recreation	400,295	60,764	148,446	-
Community and economic development	37,058	-	-	-
General government	199,848	5,505	-	-
Debt service	421,555	-	-	-
Capital projects	318,090	-	-	70,988
Total governmental activities	2,153,237	238,857	357,882	70,988
Business type activities:				
Water	694,727	332,495	-	-
Sewer	398,284	413,007	-	-
Recoupment fees	-	66,935	-	-
Total business type activities	1,093,011	812,437	-	-
Total Primary Government	\$ 3,246,248	1,051,294	357,882	70,988
Component Unit:				
Library Foundation	\$ 6,554	-	14,771	-
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 \$31,450 issue costs plus premium of \$2,285				
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 Unit
Primary Government			Library Foundation
Governmental Activities	Business Type Activities	Total	
(72,586)	-	(72,586)	
(321,781)	-	(321,781)	
(191,085)	-	(191,085)	
(37,058)	-	(37,058)	
(194,343)	-	(194,343)	
(421,555)	-	(421,555)	
(247,102)	-	(247,102)	
(1,485,510)	-	(1,485,510)	
-	(362,232)	(362,232)	
-	14,723	14,723	
-	66,935	66,935	
-	(280,574)	(280,574)	
(1,485,510)	(280,574)	(1,766,084)	
			8,217
651,771	-	651,771	-
22,161	-	22,161	-
45,020	-	45,020	-
476,013	-	476,013	-
205,044	-	205,044	-
9,243	6,401	15,644	1,122
1,820,835	363,490	2,184,325	-
34,195	-	34,195	-
(1,638)	1,638	-	-
3,262,644	371,529	3,634,173	1,122
1,777,134	90,955	1,868,089	9,339
1,878,990	1,006,724	2,885,714	81,249
\$ 3,656,124	1,097,679	4,753,803	90,588
\$ 1,269,376	106,604	1,375,980	-
452,395	-	452,395	90,588
1,398,408	518,124	1,916,532	-
108,657	-	108,657	-
29,940	-	29,940	-
397,348	472,951	870,299	-
\$ 3,656,124	1,097,679	4,753,803	90,588

City of Solon

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

As of and for the year ended June 30, 2012

	Special Revenue		
	General	Urban	Library Trust
Renewal Tax Increment			
Receipts:			
Property tax	\$ 578,034	-	-
Tax increment financing	-	476,013	-
Other city tax	-	-	-
Licenses and permits	84,503	-	-
Use of money and property	10,470	-	4,624
Intergovernmental	141,644	-	-
Charges for service	150,108	-	-
Miscellaneous	29,805	-	16,797
Total receipts	994,564	476,013	21,421
Disbursements:			
Operating:			
Public safety	139,091	-	-
Public works	497,539	-	-
Culture and recreation	320,435	-	25,401
Community and economic development	-	37,058	-
General government	176,005	-	-
Debt service	-	-	-
Capital projects	-	-	-
Total disbursements	1,133,070	37,058	25,401
Excess (deficiency) of receipts over (under) disbursements	(138,506)	438,955	(3,980)
Other financing sources (uses):			
Bond proceeds, net of \$31,450 issue costs plus premium of \$2,285	-	-	-
Operating transfers in	163,057	-	-
Operating transfers out	-	(435,071)	-
Total other financing sources (uses)	163,057	(435,071)	-
Change in cash balances	24,551	3,884	(3,980)
Cash balances beginning of year	372,797	54,236	456,375
Cash balances end of year	\$ 397,348	58,120	452,395
Cash Basis Fund Balances			
Restricted for:			
Debt service	\$ -	58,120	-
Library purposes	-	-	452,395
Capital improvements	-	-	-
Streets	-	-	-
Other purposes	-	-	-
Assigned for historical preservation	8,456	-	-
Unassigned	388,892	-	-
Total cash basis fund balances	\$ 397,348	58,120	452,395

See notes to financial statements.

Debt Service	Capital Projects	Nonmajor	Total
22,161	45,020	73,737	718,952
-	-	-	476,013
-	-	205,044	205,044
-	-	-	84,503
6	7,288	1,419	23,807
-	63,730	194,579	399,953
-	-	-	150,108
511	5,431	250	52,794
22,678	121,469	475,029	2,111,174
-	-	-	139,091
-	-	139,761	637,300
-	-	54,459	400,295
-	-	-	37,058
-	-	23,843	199,848
421,555	-	-	421,555
-	318,090	-	318,090
421,555	318,090	218,063	2,153,237
(398,877)	(196,621)	256,966	(42,063)
1,200,244	620,591	-	1,820,835
400,056	11,396	-	574,509
-	(44,695)	(96,381)	(576,147)
1,600,300	587,292	(96,381)	1,819,197
1,201,423	390,671	160,585	1,777,134
9,833	734,890	250,859	1,878,990
1,211,256	1,125,561	411,444	3,656,124
1,211,256	-	-	1,269,376
-	-	-	452,395
-	1,125,561	272,847	1,398,408
-	-	108,657	108,657
-	-	29,940	29,940
-	-	-	8,456
-	-	-	388,892
1,211,256	1,125,561	411,444	3,656,124

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, 2012

	Enterprise			Total
	Water	Sewer	Recoupment Fees	
Operating receipts:				
Charges for service	\$ 322,577	413,007	66,935	802,519
Miscellaneous	9,918	-	-	9,918
Total operating receipts	332,495	413,007	66,935	812,437
Operating disbursements:				
Business type activities	230,872	310,681	-	541,553
Excess of operating receipts over operating disbursements	101,623	102,326	66,935	270,884
Non-operating receipts (disbursements):				
Interest on investments	1,935	1,155	3,311	6,401
Bond proceeds	363,490	-	-	363,490
Debt service	(56,450)	(87,603)	-	(144,053)
Capital outlay	(407,405)	-	-	(407,405)
Net non-operating receipts (disbursements)	(98,430)	(86,448)	3,311	(181,567)
Excess of receipts over disbursements	3,193	15,878	70,246	89,317
Operating transfers in	44,695	55,000	120,000	219,695
Operating transfers out	(11,050)	(11,050)	(195,957)	(218,057)
Total transfers in (out)	33,645	43,950	(75,957)	1,638
Change in cash balances	36,838	59,828	(5,711)	90,955
Cash balances beginning of year	288,204	188,120	530,400	1,006,724
Cash balances end of year	\$ 325,042	247,948	524,689	1,097,679
Cash Basis Fund Balances				
Restricted for:				
Debt service	\$ 6,176	8,288	92,140	106,604
Capital improvements	10,575	75,000	432,549	518,124
Unrestricted	308,291	164,660	-	472,951
Total cash basis fund balances	\$ 325,042	247,948	524,689	1,097,679

See notes to financial statements.

City of Solon

Notes to Financial Statements

June 30, 2012

(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 are imposed by law through constitutional provisions or enabling legislation. Net assets restricted through enabling legislation consist of \$524,689 of recoupment fees collected for debt service and 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 are 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 Other Information. During the year ended June 30, 2012, disbursements in the business type activities function exceeded the amount budgeted prior to adoption of the budget amendment on May 16, 2012.

(2) Cash and Pooled Investments

The City’s deposits in banks at June 30, 2012 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.

At June 30, 2012, an escrow agent held U.S. Treasury notes for the City with a carrying amount and fair value of \$869,007, which mature June 1, 2013 through June 1, 2015.

(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
2013	\$ 675,000	151,265	60,000	30,265	735,000	181,530
2014	351,000	138,941	60,000	27,685	411,000	166,626
2015	416,000	124,862	65,000	25,045	481,000	149,907
2016	441,000	109,193	70,000	22,120	511,000	131,313
2017	467,000	97,877	70,000	18,900	537,000	116,777
2018-2022	1,980,000	292,160	315,000	40,290	2,295,000	332,450
2023-2025	679,000	44,480	-	-	679,000	44,480
Total	\$ 5,009,000	958,778	640,000	164,305	5,649,000	1,123,083

General Obligation Street Improvement and Refunding Bonds

On June 15, 2012, the City issued \$1,850,000 of general obligation street improvement and refunding bonds. Of the total bond proceeds, \$620,591 was deposited in the Capital Projects Fund for the purpose of paying the costs of constructing street improvements and \$331,237 was deposited in the Debt Service Fund to currently refund \$330,000 of the 2002 general obligation notes. These notes will be called and redeemed on July 11, 2012. This current refunding was undertaken to reduce total debt service payments approximately \$17,600 and resulted in an economic gain of approximately \$16,000.

The remaining proceeds of \$869,007 were converted to U.S. government securities and, pursuant to an escrow agreement, were placed with an escrow agent to facilitate the crossover refunding of \$675,000 of the 2005 general obligation sewer improvement notes and \$150,000 of the 2008 general obligation street improvement notes with crossover dates of June 1, 2015 and June 1, 2014, respectively. The escrow agent will pay the principal and interest on the refunding general obligation bonds (new debt) until the respective crossover date(s). On the respective crossover date(s), the refunded general obligation notes (old debt) will be paid using the amounts held by the escrow agent. From that point forward, a debt service levy will be used to pay the refunding general obligation bonds (new debt). The transactions and balances of the escrow account are recorded by the City since the refunded debt is not considered extinguished.

The crossover refunding of the 2005 general obligation sewer improvement notes was undertaken to reduce total debt service payments approximately \$29,800 and resulted in an economic gain of approximately \$27,600. The crossover refunding of the 2008 general obligation street improvement notes was undertaken to reduce total debt service payments approximately \$6,100 and resulted in an economic gain of approximately \$4,500.

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 \$804,305. For the year ended June 30, 2012, principal and interest paid and total customer net receipts were \$87,603 and \$102,326, respectively. Annual principal and interest payments on the bonds required approximately 86% 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 Bonds

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 bonds were issued pursuant to the provisions of Chapters 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 funds from the Iowa Finance Authority upon request to reimburse the City for costs as they are incurred. At June 30, 2012, the City had drawn \$704,202 of the \$730,000 authorized amount. An initiation fee of \$7,300 (1% of the authorized borrowing for the water revenue bonds) was charged by the Iowa Finance Authority. The total initiation fee was withheld from the first proceeds of the water revenue bonds 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, 2012, the City paid principal of \$40,000 and interest of \$16,450 on the bonds under a preliminary repayment schedule.

The City has pledged future water customer receipts, net of specified operating disbursements, to repay the water revenue bonds. The bonds are payable solely from water customer net receipts. The total amount of principal and interest remaining to be paid on the bonds at June 30, 2012 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 \$56,450 and \$101,623, respectively. Annual principal and interest payments on the bonds required approximately 56% of net receipts.

The resolution providing for the issuance of the water revenue bonds 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.

Urban Renewal Tax Increment Revenue Bond Anticipation Project Note

On June 29, 2012, the City entered into an urban renewal tax increment revenue bond anticipation project note (project note) with Bridge Community Bank, Iowa for an aggregate principal amount not to exceed \$325,000 for the payment of the costs of undertaking a project in the urban renewal area consisting of acquiring, improving and remodeling blighted property for use as a City Hall/Municipal Building. The note was issued pursuant to Chapters 76.13 and 403.9 of the Code of Iowa in anticipation of the

receipt of and is payable from the proceeds of the authorized issuance of an urban renewal tax increment revenue bond in a principal amount not to exceed \$900,000. At June 30, 2012, the City had not drawn any funds against the project note.

Interfund Loans

On September 21, 2011, 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. On September 23, 2011, the City transferred (loaned) \$140,957 from the Enterprise, Recoupment Fees Fund to the General Fund, an excess of \$20,957 over the amount approved. Payments on the loan 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, 2012, the City has loaned a total of \$593,736 to the General Fund for various projects and \$506,825 has been repaid to the Enterprise, Recoupment Fees Fund. The outstanding loan balance at June 30, 2012 totaled \$86,911.

(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 5.38% of their annual covered salary and the City is required to contribute 8.07% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2012 and June 30, 2011 were \$32,514 and \$26,801, respectively, equal to the required contributions for each 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, 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 \$569 for single coverage. For the year ended June 30, 2012, the City contributed 100%, or \$39,717, 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, 2012, primarily relating to the General Fund, is approximately \$13,900. This liability has been computed based on rates of pay in effect at June 30, 2012.

(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, 2012 is as follows:

<u>Transfer to</u>	<u>Transfer from</u>	<u>Amount</u>
General	Enterprise:	
	Water	\$ 11,050
	Sewer	11,050
	Recoupment Fees	140,957
		<u>163,057</u>
Debt Service	Special Revenue:	
	Urban Renewal Tax Increment	315,071
	Local Option Sales Tax	84,985
		<u>400,056</u>
Capital Projects	I-Jobs	<u>11,396</u>
Enterprise:		
Water	Capital Projects	<u>44,695</u>
Sewer	Enterprise:	
	Recoupment Fees	<u>55,000</u>
Recoupment Fees	Special Revenue:	
	Urban Renewal Tax Increment	<u>120,000</u>
Total		<u>\$ 794,204</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, 2012, the City entered into construction contracts totaling \$1,343,479 for street improvements and central business district improvements. Unpaid contract commitments at June 30, 2012 totaled \$1,343,479 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 four 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 2018. 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 rebate payments of \$37,058 on these agreements at June 30, 2012. The estimated outstanding principal balance of the rebate agreements at June 30, 2012 is approximately \$714,000.

Economic Development Agreements

On November 29, 2007, the City entered into an agreement with the Solon Economic Development Group (SEDG) to provide 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. At June 30, 2012, the City has paid \$2,000 to SEDG under the agreement.

The project rebate and economic development agreements are not general obligations of the City, but are subject to the constitutional debt limitation of the City. However, these agreements 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 June 5, 2013, the City approved the issuance of up to \$170,000 of general obligation bonds or notes to pay the costs of acquiring real property, demolishing a structure on the property and preparing the site for future public use. The bonds/notes will be repaid through an annual tax on all taxable property in the City.

Other 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

Other Information

Year ended June 30, 2012

	Governmental Funds Actual	Proprietary Funds Actual	Total
Receipts:			
Property tax	\$ 718,952	-	718,952
Tax increment financing	476,013	-	476,013
Other city tax	205,044	-	205,044
Licenses and permits	84,503	-	84,503
Use of money and property	23,807	6,401	30,208
Intergovernmental	399,953	-	399,953
Charges for service	150,108	802,519	952,627
Miscellaneous	52,794	9,918	62,712
Total receipts	2,111,174	818,838	2,930,012
Disbursements:			
Public safety	139,091	-	139,091
Public works	637,300	-	637,300
Culture and recreation	400,295	-	400,295
Community and economic development	37,058	-	37,058
General government	199,848	-	199,848
Debt service	421,555	-	421,555
Capital projects	318,090	-	318,090
Business type activities	-	1,093,011	1,093,011
Total disbursements	2,153,237	1,093,011	3,246,248
Excess (deficiency) of receipts over (under) disbursements	(42,063)	(274,173)	(316,236)
Other financing sources, net	1,819,197	365,128	2,184,325
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	1,777,134	90,955	1,868,089
Balances beginning of year	1,878,990	1,006,724	2,885,714
Balances end of year	\$ 3,656,124	1,097,679	4,753,803

See accompanying independent auditor's report.

Budgeted Amounts		Final to
Original	Final	Total
		Variance
707,289	707,289	11,663
476,171	476,171	(158)
136,398	136,398	68,646
16,375	16,375	68,128
32,070	32,070	(1,862)
541,739	541,739	(141,786)
869,143	869,143	83,484
76,700	76,700	(13,988)
<u>2,855,885</u>	<u>2,855,885</u>	<u>74,127</u>
158,300	158,300	19,209
667,375	667,375	30,075
414,674	442,174	41,879
41,100	47,100	10,042
197,935	206,935	7,087
421,556	421,556	1
536,000	536,000	217,910
741,296	1,185,296	92,285
<u>3,178,236</u>	<u>3,664,736</u>	<u>418,488</u>
(322,351)	(808,851)	492,615
-	400,000	1,784,325
(322,351)	(408,851)	2,276,940
<u>2,418,789</u>	<u>2,418,789</u>	<u>466,925</u>
<u>2,096,438</u>	<u>2,009,938</u>	<u>2,743,865</u>

City of Solon

Notes to Other Information – Budgetary Reporting

June 30, 2012

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 \$486,500. The budget amendment is reflected in the final budgeted amounts.

Disbursements in the business type activities function exceeded the amount budgeted prior to adoption of the May 16, 2012 budget amendment.

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, 2012

	Special		
	Road Use Tax	I-Jobs	Employee Benefits
Receipts:			
Property tax	\$ -	-	73,737
Other city tax	-	-	-
Use of money and property	-	-	-
Intergovernmental	194,579	-	-
Miscellaneous	-	-	-
Total receipts	<u>194,579</u>	<u>-</u>	<u>73,737</u>
Disbursements:			
Operating:			
Public works	127,909	-	11,852
Culture and recreation	-	-	31,461
General government	-	-	23,843
Total disbursements	<u>127,909</u>	<u>-</u>	<u>67,156</u>
Excess (deficiency) of receipts over (under) disbursements	66,670	-	6,581
Other financing uses:			
Operating transfers out	-	(11,396)	-
Change in cash balances	66,670	(11,396)	6,581
Cash balances beginning of year	41,987	11,396	10,858
Cash balances end of year	<u>\$ 108,657</u>	<u>-</u>	<u>17,439</u>
Cash Basis Fund Balances			
Restricted for:			
Capital improvements	\$ -	-	-
Streets	108,657	-	-
Other purposes	-	-	17,439
Total cash basis fund balances	<u>\$ 108,657</u>	<u>-</u>	<u>17,439</u>

See accompanying independent auditor's report.

Revenue				
Local Option Sales Tax	Playground Trust	Fire Trust		Total
-	-	-		73,737
205,044	-	-		205,044
846	573	-		1,419
-	-	-		194,579
-	250	-		250
205,890	823	-		475,029
-	-	-		139,761
-	22,998	-		54,459
-	-	-		23,843
-	22,998	-		218,063
205,890	(22,175)	-		256,966
(84,985)	-	-		(96,381)
120,905	(22,175)	-		160,585
151,942	33,994	682		250,859
272,847	11,819	682		411,444
272,847	-	-		272,847
-	-	-		108,657
-	11,819	682		29,940
272,847	11,819	682		411,444

City of Solon
Schedule of Indebtedness
Year ended June 30, 2012

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
Street Improvements	Jun 15, 2012	1.00-2.20%	1,850,000
Total			
Revenue bonds:			
Sewer	May 1, 2006	3.95-5.10%	\$ 950,000
Water	Dec 10, 2010	3.00 *	704,202
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
430,000	-	100,000	330,000	21,245
144,000	-	10,000	134,000	4,320
1,030,000	-	85,000	945,000	46,083
250,000	-	30,000	220,000	9,922
1,590,000	-	60,000	1,530,000	54,985
-	1,850,000	-	1,850,000	-
<u>\$ 3,444,000</u>	<u>1,850,000</u>	<u>285,000</u>	<u>5,009,000</u>	<u>136,555</u>
695,000	-	55,000	640,000	32,603
301,712	363,490	40,000	625,202	16,450
<u>\$ 996,712</u>	<u>363,490</u>	<u>95,000</u>	<u>1,265,202</u>	<u>49,053</u>

City of Solon
 Bond and Note Maturities
 June 30, 2012

Year Ending June 30,	General Obligation					
	Highway 1 Water Treatment		East Side Relief Sewer		Wastewater Treatment Plant	
	Issued June 1, 2002		Issued October 27, 2003		Issued December 1, 2005	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2013	4.9-5.10%	\$ 330,000	3.00%	\$ 10,000	4.10%	\$ 85,000
2014		-	3.00	11,000	4.20	90,000
2015		-	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>\$ 330,000</u>		<u>\$ 134,000</u>		<u>\$ 945,000</u>

Year Ending June 30,	Revenue Bonds	
	Water Treatment Plant - Sewer	
	Issued May 1, 2006	
Interest Rates	Amount	
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>\$ 640,000</u>

See accompanying independent auditor's report.

Bonds/Notes							
Street Improvements		Street and Sidewalk Improvements		Street Improvement and Refunding			
Issued July 1, 2008		Issued July 15, 2010		Issued June 15, 2012			
Interest Rates		Interest Rates		Interest Rates		Total	
	Amount		Amount		Amount		
3.70%	\$ 35,000	2.20%	\$ 60,000	1.00%	\$ 155,000		675,000
3.85	35,000	2.20	60,000	1.00	155,000		351,000
4.00	35,000	2.75	100,000	1.00	175,000		416,000
4.10	35,000	3.00	110,000	1.00	185,000		441,000
4.20	40,000	3.20	115,000	1.15	195,000		467,000
4.25	40,000	3.40	120,000	1.30	195,000		477,000
	-	3.60	125,000	1.50	155,000		408,000
	-	3.70	125,000	1.70	155,000		413,000
	-	3.80	130,000	1.85	160,000		428,000
	-	4.00	135,000	2.00	105,000		254,000
	-	4.00	145,000	2.10	105,000		264,000
	-	4.05	150,000	2.20	110,000		260,000
	-	4.10	155,000		-		155,000
	<u>\$ 220,000</u>		<u>\$ 1,530,000</u>		<u>\$ 1,850,000</u>		<u>5,009,000</u>

Schedule 4

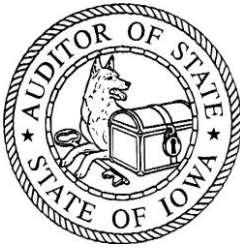
City of Solon

Schedule of Receipts by Source
and Disbursements by Function -
All Governmental Funds

For the Last Two Years

	2012	2011
Receipts:		
Property tax	\$ 718,952	621,928
Tax increment financing	476,013	461,225
Other city tax	205,044	142,847
Licenses and permits	84,503	90,569
Use of money and property	23,807	27,530
Intergovernmental	399,953	361,980
Charges for service	150,108	137,177
Miscellaneous	52,794	49,963
Total	\$ 2,111,174	1,893,219
Disbursements:		
Operating:		
Public safety	\$ 139,091	131,999
Public works	637,300	577,750
Culture and recreation	400,295	341,243
Community and economic development	37,058	-
General government	199,848	198,939
Debt service	421,555	420,162
Capital projects	318,090	857,965
Total	\$ 2,153,237	2,528,058

See accompanying independent auditor's report.



OFFICE OF AUDITOR OF STATE

STATE OF IOWA

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Auditor of State

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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, 2012, which collectively comprise the City's basic financial statements listed in the table of contents, and have issued our report thereon dated June 11, 2013. Our report expressed unqualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. 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) and (B) 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 (C) through (E) 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, 2012 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 the 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.



MARY MOSIMAN, CPA
Auditor of State



WARREN G. JENKINS, CPA
Chief Deputy Auditor of State

June 11, 2013

City of Solon

Schedule of Findings

Year ended June 30, 2012

Findings Related to the Financial Statements:

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 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) Computer systems – 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 the signature or initials of the independent reviewer and the date of the review.

Response – The City will periodically review its internal control procedures for any changes that can be made in the segregation of duties to increase internal control. Reconciliations will be reviewed and evidenced by initials of the reviewer and the date they reviewed the reports.

Conclusion – Response accepted.

- (B) 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 City Council or a Council-designated independent person should review the reconciliation and monitor delinquent accounts.

Response – The City will add a reconciliation of utility billings, collections and delinquencies to its monthly reporting process.

Conclusion – Response accepted.

City of Solon

Schedule of Findings

Year ended June 30, 2012

- (C) 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 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 its 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 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 work to create a computer usage policy and a written disaster recovery plan.

Conclusion – Response accepted.

City of Solon

Schedule of Findings

Year ended June 30, 2012

- (D) Initial Listing – A listing of all cash and checks received in the mail is prepared by a person other than accounting personnel. However, the listing is not reconciled to deposits by an independent person.

Recommendation – The listing should be compared to the receipt records by an independent person.

Response – The City will have an independent person compare receipt records to the listing of cash and receipts received in the mail.

Conclusion – Response accepted.

- (E) 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 – When the City orders checks, it will implement a system for counter signatures. Until that time, an independent person will compare prepared checks to supporting invoices and initial they have been reviewed.

Conclusion – Response accepted.

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

City of Solon

Schedule of Findings

Year ended June 30, 2012

Other Findings Related to Required Statutory Reporting:

- (1) Certified Budget – Disbursements in the business type activities function exceeded the amount budgeted prior to adoption of the May 16, 2012 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 – The City will amend its budget before disbursements exceed the budgeted amount.

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

The Council went into closed session on January 11, 2012. However, the minute's record did not document the specific information regarding the closed session as required by Chapter 21.5 of the Code of Iowa, commonly known as the open-meetings law.

Recommendation – The City should comply with Chapter 21.5 of the Code of Iowa.

Response – The City will comply with Chapter 21.5 of the Code of Iowa.

Conclusion – Response accepted.

- (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 – No instances of noncompliance with the revenue bond resolutions were noted.

City of Solon

Schedule of Findings

Year ended June 30, 2012

- (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 annually and remit items over two years old to the State Treasurer’s Office.

Conclusion – Response accepted.

- (10) Economic Development Agreement – On November 29, 2007, the City entered into an agreement with the Solon Economic Development Group (SEDG) to provide SEDG a \$58,900 grant to carry out economic development activities within the City’s urban renewal areas. The grant is to be annually appropriated and paid 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 were due over a five year period. The City has annually appropriated the payments and has included \$58,900 of the appropriated debt on the TIF debt certification to the County from the 2007 through the 2011 certification. However, as of June 30, 2012, the City has paid only \$2,000 to SEDG.

Recommendation – The economic development payments should be remitted to the Solon Economic Development Group as directed by the City Council when the debt was appropriated.

Response – The City intends to pay all amounts owed to SEDG within the next few months.

Conclusion – Response accepted.

- (11) City Fire Protection – In August 1999, the City entered into a 28E agreement (Agreement) with the Tri-Township Fire Department (Department), consisting of the Big Grove, Cedar and Newport Townships, for joint and mutual fire protection. Pursuant to the agreement, the City is responsible for maintenance, insurance, utilities and other costs associated with maintaining the fire station, as well as vehicle maintenance, telephone expense and operating supplies. These costs are paid directly by the City. The agreement also requires the City to pay an annual amount to the Department representing the City’s share of “all other expenses for the maintenance of the Solon-Tri-Township Fire Department, including its vehicles and personnel costs”. During the year ended June 30, 2012, the City paid \$55,330 to the Department under the terms of the agreement.

We were unable to determine how the Tri-Township Fire Department was established. The Department does not appear to be organized as a non-profit organization and no documents could be located to indicate its establishment as a 28E organization. The City does not provide oversight to ensure the funds provided to the Department are properly used to accomplish the purposes set out in the Agreement, including ensuring all funds are spent only for the public benefit.

City of Solon

Schedule of Findings

Year ended June 30, 2012

Pursuant to the agreement, "Expenditures made under this agreement shall be administered by the City Treasurer". However, all financial activity is administered by the Tri-Township Treasurer.

Recommendation – Since the City has joined with and provides funding to the Tri-Township Fire Department, the City should determine how the Department was organized, including whether a separate entity exists or whether activity for the Department should be accounted for and recorded by the City.

The City should establish procedures to ensure public funds provided to the Department are properly used to accomplish the purposes set out in the Agreement.

Response – Contrary to how the 28E agreement reads, it was never the intention of either party to the agreement for the City to run the Department finances through the City's records. Each party intended the City would maintain a record (spreadsheet) of both the City's and the Department's expenditures, with the Department writing out (paying) the actual bills (except those falling directly under the City's responsibility). Each month, the Department provides the City with a list of the Department's expenditures, along with any bills the City is directly responsible for. From this information, the City compiles a spreadsheet detailing all expenditures. This spreadsheet serves to account monthly for all Department expenditures.

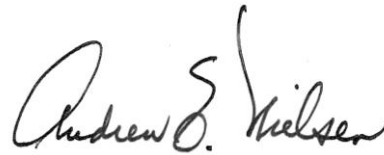
Conclusion – Response acknowledged. The City should consult legal counsel to determine how and if the Tri-Township Fire Department was established as a legal entity. If the Department is not a legal entity, the City's share of the Department's activities should be recorded in the City's financial records pursuant to Chapter 384.20 of the Code of Iowa, which states, in part, "A city shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any city purpose, by any city officer, employee, or other person, and which show the receipt, use, and disposition of all city property."

City of Solon
Schedule of Findings
Year ended June 30, 2012

City of Solon
Staff

This audit was performed by:

Marlys K. Gaston, CPA, Manager
Daniel L. Grady, Senior Auditor II
Kassi D. Adams, Staff Auditor
Eric L. Rath, Assistant Auditor



Andrew E. Nielsen, CPA
Deputy Auditor of State