

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

JUNE 30, 2014

CITY OF SOLON, IOWA

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CITY OF SOLON, IOWA

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<u>Mayor and Council</u>		
Through December 31, 2013		
Cami Rasmussen	Mayor	December 2015
Steve Stange	Mayor Pro-Tem	December 2013
Jesse Ehlinger	Council Member	December 2013
Mark Krall	Council Member	December 2013
Ron Herdliska	Council Member	December 2015
Brad Kunkel	Council Member	December 2015
Beginning January 1, 2014		
Cami Rasmussen	Mayor (through March 27, 2014)	December 2015
Steve Stange	Mayor (appointed May 7, 2014)	December 2015
Steve Stange	Mayor Pro-Tem (through May 6, 2014)	December 2015
Brad Kunkel	Mayor Pro-Tem (appointed May 7, 2014)	December 2015
Ron Herdliska	Council Member	December 2015
Brad Kunkel	Council Member (through May 6, 2014)	December 2015
Steve Duncan	Council Member (appointed June 4, 2014)	December 2017
Casey Grover	Council Member	December 2017
Mark Krall	Council Member	December 2017
<u>City Staff</u>		
Cassandra Lippincott	City Administrator (through April 18, 2014)	
Cami Rasmussen	Interim City Administrator (began April 28, 2014)	April 28, 2015
Susie Siddell	City Clerk/Treasurer	Indefinite
James Martinek	City Attorney	Indefinite



**Winkel, Parker
& Foster, CPA PC**

Certified Public Accountants & Consultants

INDEPENDENT AUDITOR'S REPORT

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

Report on the Financial Statements

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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with the cash basis of accounting described in Note 1. This includes determining that the cash basis of accounting is an acceptable basis for the preparation of the financial statements in the circumstances. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective 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, Iowa, as of June 30, 2014, and the respective changes in cash basis financial position for the year then ended in accordance with the basis of accounting described in Note 1.

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Basis of Accounting

We draw attention to Note 1 of the financial statements, which describes the basis of accounting. The financial statements are prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America. Our opinion is not modified with respect to this matter.

Other Matters

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Solon, Iowa's basic financial statements. The financial statements for the two years ended June 30, 2013 (none of which are presented herein) were audited by other auditors and they expressed unmodified opinions on those financial statements which were prepared on the basis of cash receipts and disbursements. The financial statements for the year ended June 30, 2011 (none of which are presented herein) were audited by other auditors and they expressed a modified opinion on those financial statements, which were prepared on the basis of cash receipts and disbursements, because they were unable to satisfy themselves 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.

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

Disclaimer of Opinion on Other Information

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. The other information, Management's Discussion and Analysis and the budgetary comparison information on pages 4 through 9 and 29 through 31 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.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated March 16, 2015 on our consideration of the City of Solon, Iowa's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on 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* in considering the City of Solon, Iowa's internal control over financial reporting and compliance.

Winkel, Barker & Foster, CPA PC

Iowa City, Iowa
March 16, 2015

MANAGEMENT'S DISCUSSION AND ANALYSIS

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

2014 Financial Highlights

Receipts of the City's governmental activities increased approximately \$500,000, or 19.5% from fiscal year 2013 to 2014. Operating grants, contributions and restricted interest increased approximately \$89,000, capital grants, contributions and restricted interest decreased approximately \$203,000, tax increment financing increased approximately \$73,000 and local option sales tax proceeds decreased approximately \$162,000. Net proceeds from the issuance of long-term debt increased approximately \$642,000.

Disbursements for governmental activities decreased approximately \$790,000, or 19.8% from fiscal year 2013 to 2014. Public safety and public works disbursements increased approximately \$209,000. Debt service disbursements decreased approximately \$117,000 and capital projects disbursements decreased approximately \$904,000 due to fewer capital projects in 2014.

The City's total cash basis net position decreased 1.5%, or approximately \$54,000, from June 30, 2013 to June 30, 2014. Of this amount, governmental activities decreased approximately \$6,000 and business type activities decreased approximately \$48,000.

Using This Annual Report

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

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

The Government-wide Financial Statement consists of a Cash Basis Statement of Activities and Net Position. 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 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 non-major 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 accounting principles generally accepted in the United States of America. Therefore, when reviewing the financial information and discussion within this annual report, the reader 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 Cash Basis Statement of Activities and Net Position reports information which helps answer this question.

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

The Cash Basis Statement of Activities and Net Position is divided into two kinds of activities:

- Governmental Activities include public safety, public works, culture and recreation, community and economic development, general government, debt service and capital projects. Property tax and state and federal grants finance most of these activities.
- Business Type Activities include the waterworks, 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, Local Option Sales Tax 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, which are 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 position may serve over time as a useful indicator of financial position. The analysis that follows focuses on the changes in cash balances for governmental activities.

Changes in Cash Basis Net Position of Governmental Activities (Expressed in Thousands)

	Year Ended June 30,	
	2014	2013
Receipts:		
Program receipts:		
Charges for service	\$ 320	\$ 253
Operating grants, contributions and restricted interest	435	346
Capital grants, contributions and restricted interest	28	231
General receipts:		
Property tax	800	804
Tax increment financing	538	465
Local option sales tax	53	215
Unrestricted interest on investments	10	9
Other general receipts	20	28
Sales of assets	5	-
Net bond and note proceeds	856	214
Total receipts	3,065	2,565
Disbursements:		
Public safety	229	152
Public works	642	510
Culture and recreation	376	411
Community and economic development	142	134
General government	274	225
Debt service	714	831
Capital projects	820	1,724
Total disbursements	3,197	3,987
Change in cash basis net position before transfers	(132)	(1,422)
Transfers, net	126	(91)
Change in cash basis net position	(6)	(1,513)
Cash basis net position, beginning of year	2,143	3,656
Cash basis net position, end of year	\$ 2,137	\$ 2,143

The City's total receipts from governmental activities increased approximately \$500,000, or 19.5%, primarily due to increase in net bond and note proceeds for capital projects. The total cost of all programs and services decreased approximately \$790,000, or 19.8%, primarily due to a decrease in costs of capital projects from 2013 to 2014.

The cost of all governmental activities this year was approximately \$3,197,000, compared to \$3,987,000 last year. As shown in the Cash Basis Statement of Activities and Net Position, the amount taxpayers ultimately financed for these activities was approximately \$2,414,000 because some of the cost was paid by those who directly benefited from the programs (charges for service or by other governments and organizations that subsidized certain programs with grants and contributions).

**Changes in Cash Basis Net Position of Business Type Activities
(Expressed in Thousands)**

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
Receipts:		
Program receipts:		
Charges for service:		
Water	\$ 388	\$ 345
Sewer	472	439
Recoupment fees	110	88
General receipts:		
Unrestricted interest on investments	6	22
Bond proceeds	<u>-</u>	<u>5</u>
Total receipts	<u>976</u>	<u>899</u>
Disbursements:		
Water	432	376
Sewer	<u>466</u>	<u>343</u>
Total disbursements	<u>898</u>	<u>719</u>
Change in cash basis net position before transfers	78	180
Transfers, net	<u>(126)</u>	<u>91</u>
Change in cash basis net position	(48)	271
Cash basis net position, beginning of year	<u>1,368</u>	<u>1,097</u>
Cash basis net position, end of year	<u>\$ 1,320</u>	<u>\$ 1,368</u>

Total business type activities receipts for the fiscal year increased approximately \$77,000. The increase was due primarily to an increase in utility billing rates in water and sewer and an increase in recoupment fees collected. Total business type activities disbursements increased approximately \$179,000, primarily due to increases in costs of operating the water and sewer utilities and higher than usual costs of repairs and maintenance.

Individual Major Governmental Fund Analysis

As the City of Solon completed the year, its governmental funds reported a combined fund balance of approximately \$2,137,000, a decrease of approximately \$6,000 from the prior year. Major reasons for the changes in fund balances of the major funds from the prior year are as follows:

- The General Fund cash balance increased approximately \$62,000 from the prior year to a balance of approximately \$509,000. Increases in building permits and intergovernmental receipts were offset by increases in public safety and general governmental disbursements.
- The Special Revenue, Urban Renewal Tax Increment Fund cash balance increased approximately \$21,000.
- The Special Revenue, Local Option Sales Tax Fund cash balance decreased approximately \$100,000 from the prior year. The local option sales tax in the City expired June 30, 2013. Transfers out for debt service were approximately \$154,000.
- The Special Revenue, Library Trust Fund cash balance increased approximately \$8,000 to approximately \$446,000 at year end.
- The Debt Service Fund cash balance decreased approximately \$158,000 primarily due to paying off the 2008 street improvements bonds with funds held in escrow from a refunding bond issue sold in June 2012.
- The Capital Projects Fund cash balance increased approximately \$131,000 from the prior year. Net proceeds of approximately \$856,000 from the sale of bonds were used to fund the construction costs of the City Hall Project.

Business Type Fund Analysis

The City's business type fund cash balances decreased by approximately \$48,000 from the prior year. Unplanned repair and maintenance costs offset the increases in receipts. Water and sewer rates were increased for the year. A transfer of over \$128,000 was made from the Recoupment Fees Fund to the General Fund.

Budgetary Highlights

Over the course of the year, the City amended its budget once. The budget amendment increased budgeted disbursements by over \$892,000. Disbursements for all functions increased due to increased costs of operating services, capital projects and unplanned major repairs and maintenance. Disbursements in the debt service function exceeded the final budgeted amount by approximately \$161,000. Disbursements in the public safety, community and economic development and general government functions exceeded the original budgeted amounts prior to the approval of the budget amendment on April 16, 2014.

Debt Administration

As of June 30, 2014, the City had \$5,926,712 in bonds and other debt, compared to \$5,733,680 last year, as shown below.

Outstanding Debt at Year End (Expressed in Thousands)

	<u>Year Ended June 30,</u>	
	<u>2014</u>	<u>2013</u>
General obligation bonds and notes	\$ 4,843	\$ 4,334
Revenue bonds	1,084	1,186
Bond anticipation note	<u>-</u>	<u>214</u>
Total	<u>\$ 5,927</u>	<u>\$ 5,734</u>

The City issued general obligation bonds in the amount of \$1,070,000 to repay a bond anticipation project note for the City Hall Project. The City also paid off the balance of the 2008 general obligation street improvement bonds.

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 and tax increment financing rebate agreements, net of cash available to service those debts is below the City's constitutional debt limit of approximately \$7,673,000.

The City does not carry a general obligation bond rating assigned by national rating agencies due to the small size of the City and the debt traditionally bonded for; additionally, it is considered that the cost associated with obtaining such a rating would not be in line with any potential resulting savings or points discounted.

Economic Factors and Next Year's Budget and Rates

The City is situated in a quickly developing area in eastern Iowa. Building permits for single-family and multi-family dwelling units continues its growth pattern. The growth in dwelling units will offset the decreases in valuations of vacant multi-family lots assessed now at agricultural rates instead of residential-assessed rates.

The City's budget for fiscal year 2015 includes total receipts of \$3,081,891 and disbursements of \$3,082,046.

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 information, contact the Interim City Administrator or the City Clerk/Treasurer at 101 N. Main Street, Solon, Iowa 52333, or by phone at (319)-624-3755.

BASIC FINANCIAL STATEMENTS

CITY OF SOLON, IOWA

Cash Basis Statement of Activities and Net Position
(Page 1 of 2)

As of and for the Year Ended June 30, 2014

	Disbursements	Charges for Service	Program Receipts	
			Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions/Programs:				
Primary Government:				
Governmental activities:				
Public safety	\$ 228,730	\$ 120,703	\$ -	\$ -
Public works	642,375	115,093	221,235	-
Culture and recreation	375,747	73,190	213,956	-
Community and economic development	142,305	-	-	-
General government	273,736	11,307	-	-
Debt service	714,181	-	-	-
Capital projects	820,203	-	-	28,184
Total governmental activities	<u>3,197,277</u>	<u>320,293</u>	<u>435,191</u>	<u>28,184</u>
Business type activities:				
Water	431,826	388,179	-	-
Sewer	466,491	472,189	-	-
Recoupment fees	-	109,500	-	-
Total business type activities	<u>898,317</u>	<u>969,868</u>	<u>-</u>	<u>-</u>
Total Primary Government	<u>\$ 4,095,594</u>	<u>\$ 1,290,161</u>	<u>\$ 435,191</u>	<u>\$ 28,184</u>
Component Unit:				
Library Foundation	\$ 302	\$ -	\$ 4,071	\$ -
General Receipts and Transfers:				
Property and other city tax levied for:				
General purposes				
Debt service				
Other purposes				
Tax increment financing				
Local option sales tax				
Unrestricted interest on investments				
Miscellaneous				
Proceeds from sale of bonds				
Repayment of bond anticipation project note				
Sale of capital assets				
Transfers				
Total general receipts and transfers				

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
\$ (108,027)	\$ -	\$ (108,027)	
(306,047)	-	(306,047)	
(88,601)	-	(88,601)	
(142,305)	-	(142,305)	
(262,429)	-	(262,429)	
(714,181)	-	(714,181)	
(792,019)	-	(792,019)	
(2,413,609)	-	(2,413,609)	
-	(43,647)	(43,647)	
-	5,698	5,698	
-	109,500	109,500	
-	71,551	71,551	
(2,413,609)	71,551	(2,342,058)	
			\$ 3,769
630,232	-	630,232	-
24,015	-	24,015	-
145,462	-	145,462	-
538,234	-	538,234	-
53,248	-	53,248	-
9,699	6,226	15,925	-
19,872	-	19,872	-
1,070,000	-	1,070,000	-
(213,968)	-	(213,968)	-
4,650	-	4,650	-
126,291	(126,291)	-	-
2,407,735	(120,065)	2,287,670	-

CITY OF SOLON, IOWA

Cash Basis Statement of Activities and Net Position
(Page 2 of 2)

As of and for the Year Ended June 30, 2014

Change in cash basis net position
Cash basis net position, beginning of year
Cash basis net position, end of year

Cash Basis Net Position

Restricted

Expendable:

Streets

Debt service

Capital improvements

Employee benefits

Urban renewal

Library purposes

Recreation

Fire protection

Unrestricted

Total cash basis net position

See accompanying Notes to Financial Statements.

Exhibit A

Net (Disbursements) Receipts and
Changes in Cash Basis Net Position

Primary Government			Component Unit
Governmental Activities	Business Type Activities	Total	Library Foundation
(5,874)	(48,514)	(54,388)	3,769
2,142,795	1,368,245	3,511,040	89,878
<u>\$ 2,136,921</u>	<u>\$ 1,319,731</u>	<u>\$ 3,456,652</u>	<u>\$ 93,647</u>
(Exhibit B)	(Exhibit C)		

\$ 184,869	\$ -	\$ 184,869	\$ -
693,132	104,720	797,852	-
232,127	606,111	838,238	-
18,787	-	18,787	-
35,366	-	35,366	-
445,754	-	445,754	93,647
39,630	-	39,630	-
682	-	682	-
486,574	608,900	1,095,474	-
<u>\$ 2,136,921</u>	<u>\$ 1,319,731</u>	<u>\$ 3,456,652</u>	<u>\$ 93,647</u>

CITY OF SOLON, IOWA

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Governmental Funds
(Page 1 of 2)

As of and for the Year Ended June 30, 2014

	Special Revenue			
	General Fund	Urban Renewal Tax Increment	Local Option Sales Tax	Library Trust
Receipts:				
Property tax	\$ 622,405	\$ -	\$ -	\$ -
Tax increment financing	-	538,234	-	-
Other city tax	7,827	-	53,248	-
Licenses and permits	127,338	-	-	-
Use of money and property	4,574	431	882	3,038
Intergovernmental	196,764	-	-	5,086
Charges for service	170,483	-	-	-
Miscellaneous	37,891	-	-	8,032
Total receipts	1,167,282	538,665	54,130	16,156
Disbursements:				
Operating				
Public safety	228,730	-	-	-
Public works	419,692	-	-	-
Culture and recreation	311,186	-	-	7,799
Community and economic development	-	142,305	-	-
General government	258,863	-	-	-
Debt service	-	-	-	-
Capital projects	-	-	-	-
Total disbursements	1,218,471	142,305	-	7,799
Excess (deficiency) of receipts over (under) disbursements	(51,189)	396,360	54,130	8,357
Other financing sources (uses):				
Sale of capital assets	4,650	-	-	-
Proceeds from sale of general obligation bonds	-	-	-	-
Repayment of bond anticipation project note	-	-	-	-
Operating transfers in	175,513	-	-	-
Operating transfers (out)	(66,756)	(375,693)	(154,170)	-
Total other financing sources (uses)	113,407	(375,693)	(154,170)	-
Change in cash balances	62,218	20,667	(100,040)	8,357
Cash balances, beginning of year	446,795	14,699	332,167	437,397
Cash balances, end of year	\$ 509,013	\$ 35,366	\$ 232,127	\$ 445,754

Exhibit B

Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
\$ 23,780	\$ 47,358	\$ 96,277	\$ 789,820
-	-	-	538,234
235	613	1,214	63,137
-	-	-	127,338
2,398	1,503	67	12,893
-	28,184	203,548	433,582
-	-	310	170,793
-	-	22,710	68,633
<u>26,413</u>	<u>77,658</u>	<u>324,126</u>	<u>2,204,430</u>
-	-	-	228,730
-	-	222,683	642,375
-	-	56,762	375,747
-	-	-	142,305
-	-	14,873	273,736
714,181	-	-	714,181
-	820,203	-	820,203
<u>714,181</u>	<u>820,203</u>	<u>294,318</u>	<u>3,197,277</u>
<u>(687,768)</u>	<u>(742,545)</u>	<u>29,808</u>	<u>(992,847)</u>
-	-	-	4,650
-	1,070,000	-	1,070,000
-	(213,968)	-	(213,968)
529,863	66,756	-	772,132
-	(49,222)	-	(645,841)
<u>529,863</u>	<u>873,566</u>	<u>-</u>	<u>986,973</u>
(157,905)	131,021	29,808	(5,874)
<u>851,037</u>	<u>(153,460)</u>	<u>214,160</u>	<u>2,142,795</u>
<u>\$ 693,132</u>	<u>\$ (22,439)</u>	<u>\$ 243,968</u>	<u>\$ 2,136,921</u>

(Exhibit A)

CITY OF SOLON, IOWA

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances -
Governmental Funds
(Page 2 of 2)

As of and for the Year Ended June 30, 2014

	Special Revenue			
	General Fund	Urban Renewal Tax Increment	Local Option Sales Tax	Library Trust
Cash basis fund balances:				
Restricted for:				
Streets	\$ -	\$ -	\$ -	\$ -
Debt service	-	-	-	-
Capital improvements	-	-	232,127	-
Employee benefits	-	-	-	-
Urban renewal	-	35,366	-	-
Library	-	-	-	445,754
Recreation	-	-	-	-
Fire protection	-	-	-	-
Assigned for historic preservation	7,325	-	-	-
Unassigned	501,688	-	-	-
Total cash basis fund balances	\$ 509,013	\$ 35,366	\$ 232,127	\$ 445,754

See accompanying Notes to Financial Statements.

Exhibit B

Debt Service	Capital Projects	Nonmajor Governmental Funds	Total
\$ -	\$ -	\$ 184,869	\$ 184,869
693,132	-	-	693,132
-	-	-	232,127
-	-	18,787	18,787
-	-	-	35,366
-	-	-	445,754
-	-	39,630	39,630
-	-	682	682
-	-	-	7,325
-	(22,439)	-	479,249
<u>\$ 693,132</u>	<u>\$ (22,439)</u>	<u>\$ 243,968</u>	<u>\$ 2,136,921</u>

CITY OF SOLON, IOWA

Exhibit C

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

As of and for the Year Ended June 30, 2014

	Water	Sewer	Recoupment Fees	Total
Operating receipts:				
Charges for service	\$ 377,412	\$ 466,572	\$ 109,500	\$ 953,484
Miscellaneous	10,767	5,617	-	16,384
Total operating receipts	388,179	472,189	109,500	969,868
Operating disbursements:				
Business type activities	343,846	323,950	-	667,796
Excess of operating receipts over operating disbursements	44,333	148,239	109,500	302,072
Non-operating receipts (disbursements):				
Interest on investments	1,616	1,102	3,508	6,226
Debt service	(60,171)	(87,685)	-	(147,856)
Capital outlay	(27,809)	(54,856)	-	(82,665)
Net non-operating receipts (disbursements)	(86,364)	(141,439)	3,508	(224,295)
Excess (deficiency) of receipts over (under) disbursements	(42,031)	6,800	113,008	77,777
Other financing sources (uses):				
Operating transfers in	75,722	37,125	-	112,847
Operating transfers (out)	(24,800)	(22,000)	(192,338)	(239,138)
Net operating transfers	50,922	15,125	(192,338)	(126,291)
Change in cash balances	8,891	21,925	(79,330)	(48,514)
Cash balances, beginning of year	342,209	323,455	702,581	1,368,245
Cash balances, end of year	\$ 351,100	\$ 345,380	\$ 623,251	\$ 1,319,731
				(Exhibit A)
Cash basis fund balances:				
Restricted:				
Debt service	\$ 5,076	\$ 7,504	\$ 92,140	\$ 104,720
Capital improvements	-	75,000	531,111	606,111
Unrestricted	346,024	262,876	-	608,900
Total cash basis fund balances	\$ 351,100	\$ 345,380	\$ 623,251	\$ 1,319,731

See accompanying Notes to Financial Statements.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The City of Solon, Iowa 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 nonpartisan basis. The City provides numerous services to citizens including public safety, public works, 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 and Jointly Governed Organizations

For financial reporting purposes, the City of Solon, Iowa 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 or impose specific financial burdens on the City.

These financial statements present the City of Solon, Iowa (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 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.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

B. Basis of Presentation

Government-wide Financial Statement - The Cash Basis Statement of Activities and Net Position (previously referred to as 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 services.

The Cash Basis Statement of Activities and Net Position presents the City's nonfiduciary net position. Net position is reported in the following categories/components:

Expendable restricted net position results when constraints placed on the use of cash balances are either externally imposed or imposed by law through constitutional provisions or enabling legislation. Net position restricted through enabling legislation includes \$623,251 of recoupment fees collected for debt service and capital improvements.

Unrestricted net position consists of cash balances that do not meet the definition of the preceding category. Unrestricted net position often has constraints on resources imposed by management, which can be removed or modified.

The Cash Basis Statement of Activities and Net Position 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 that are 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 Local Option Sales Tax Fund is used to account for the proceeds of local option sales tax collections used for street improvements, water and sewer infrastructure and construction/maintenance of any public facility.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 taxes and other receipts 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 Water Fund accounts for the operation and maintenance of the City's water system.

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

The Recoupment Fees Fund accounts 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 accounting principles generally accepted in the United States of America.

Under the terms of grant agreements, the City funds certain programs with 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 position available to finance the programs. It is the City's policy to first apply cost-reimbursement grant resources to such programs, followed by categorical block grants and then with 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 nonoperating 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 nonoperating receipts and disbursements.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

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 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, 2014, disbursements in the debt service function exceeded the final amount budgeted. Disbursements in the public safety, community and economic development and general government functions exceeded the original budget amounts prior to approval of the budget amendment on April 16, 2014.

F. Property Tax Calendar

The City's property taxes were extended against the assessed valuation of the City as of January 1, 2012, to compute the amounts which became liens on property on July 1, 2013. These taxes were due and payable by the property owners in two installments on September 30, 2013 and March 31, 2014, at the Johnson County Treasurer's Office. These taxes are recognized as income to the City when they are received from the county.

NOTE 2. CASH AND POOLED INVESTMENTS

The City's deposits in banks at June 30, 2014 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

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

At June 30, 2014, an escrow agent held U.S. Treasury notes for the City with a carrying amount and fair value of \$683,199, which mature December 1, 2014 and June 1, 2015.

Interest rate risk - The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) to instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days, but the maturities shall be consistent with the needs and uses of the City.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 3. BONDS AND NOTES PAYABLE

Annual debt service requirements to maturity for general obligation bonds and notes and revenue bonds at June 30, 2014 are as follows:

Year Ending June 30,	General Obligation Bonds and Notes		Revenue Bonds	
	Principal	Interest	Principal	Interest
2015	\$ 469,000	\$ 143,695	\$ 109,000	\$ 41,956
2016	496,000	132,146	115,000	37,711
2017	520,000	119,568	117,000	33,142
2018	533,000	105,781	123,000	28,441
2019	507,000	90,872	125,000	23,402
2020-2024	2,163,000	224,438	439,000	46,227
2025-2029	155,000	6,355	55,712	1,671
Total	\$ 4,843,000	\$ 822,855	\$ 1,083,712	\$ 212,550

Year Ending June 30,	Total	
	Principal	Interest
2015	\$ 578,000	\$ 185,651
2016	611,000	169,857
2017	637,000	152,710
2018	656,000	134,222
2019	632,000	114,274
2020-2024	2,602,000	270,665
2025-2029	210,712	8,026
Total	\$ 5,926,712	\$ 1,035,405

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 2002 general obligation notes. These notes were called and redeemed on July 11, 2012.

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 dates. On the respective crossover dates, 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.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 3. BONDS AND NOTES PAYABLE (Continued)

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, as of June 30, 2014, is \$626,355. For the year ended June 30, 2014, principal and interest paid and total customer net receipts were \$87,685 and \$148,239, respectively. Annual principal and interest payments on the bonds required approximately 59.2% 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 Sewer Fund for the purpose of making the bond principal and interest payments when due.
- (c) Upon 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 Recoupment Fees Fund for this purpose.
- (d) All funds remaining in the sewer account after the payments of all maintenance and operating expenses and required transfers shall be placed in a sewer revenue improvement account within the Sewer 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 not be able 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 a rate of 3% per annum. The agreement also requires the City to annually pay a 0.25% 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 for 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, 2014, the City had drawn \$725,712 of the authorized amount of \$730,000. Repayment of principal and interest on the bonds is under a preliminary repayment schedule. A final repayment schedule has not yet been adopted.

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 and are payable through 2025. The total principal and interest remaining to be paid on the notes, as of June 30, 2014 and based on the preliminary repayment schedule, is \$669,907. For the year ended June 30, 2014, principal and interest paid and total customer net receipts were \$60,171 and \$44,333, respectively. Annual principal and interest payments on the bond required approximately 135.7% of net receipts.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 3. BONDS AND NOTES PAYABLE (Continued)

The resolution providing for the issuance of the water revenue bonds issued under the loan agreement 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 water revenue bond sinking account within the Water Fund 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. For the year ended June 30, 2014, net revenues were less than the required level.

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 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 City had drawn \$213,968 against the project note. The project note was repaid from the proceeds of the issuance of general obligation bonds in the amount of \$1,070,000 during the year ended June 30, 2014.

Interest Rate Reduction

During the year ended June 30, 2014, the interest rate on the East Side Relief Sewer bonds was reduced from 3.0% to 1.75% effective December 1, 2013. The State Revolving Fund (SRF) offers the new interest rate on all existing SRF loans that are at least ten years old. The amount of the interest savings is \$8,138 and the economic gain (difference between the present value of the old and new interest payments) for the bonds is approximately \$7,900.

NOTE 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 5.95% of their annual covered compensation and the City is required to contribute 8.93% of covered compensation. Certain employees in special risk occupations, and the City, contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contributions to IPERS for the years ended June 30, 2014, 2013, and 2012 were \$41,687, \$36,627 and \$32,514, respectively, equal to the required contributions for each year.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 5. OTHER POST-EMPLOYMENT BENEFITS (OPEB)

Plan Description - The City operates a single-employer health benefit plan which provides medical/prescription drug benefits for retirees and current employees and their families. There are eight active and no retired members in the plan. 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 City finances the health insurance plan with Wellmark on a pay-as-you-go basis. Contribution requirements of plan members are established by and may be amended by the City. For the year ended June 30, 2014, the City contributed 100% of the premium and the employee was responsible for \$75 of the premium for family coverage beginning in April 2014. The most recent premium cost per member is \$796 per month for single coverage and \$2,067 per month for family coverage. During the year ended June 30, 2014, the City contributed nearly 100%, or \$65,540, to the plan.

NOTE 6. COMPENSATED ABSENCES

City employees accumulate earned but unused vacation hours for subsequent use or for payment upon retirement, termination or death. These accumulations are not recognized as disbursements by the City until used or paid. The approximate liability for earned vacation payable to employees at June 30, 2014, primarily relating to the General Fund, is \$17,200. This liability has been computed based on rates of pay as of June 30, 2014.

NOTE 7. RISK MANAGEMENT

The City of Solon, Iowa 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.

NOTE 8. INTERFUND TRANSFERS

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources, move resources to facilitate the payment of principal and interest on bonds and notes payable, and move resources for the acquisition of major equipment purchases and capital projects.

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

<u>Transfer To</u>	<u>Transfer From</u>	<u>Amount</u>
General	Water Enterprise	\$ 24,800
	Sewer Enterprise	22,000
	Recoupment Fees Enterprise	128,713
		<u>175,513</u>
Debt Service	Special Revenue:	
	Local Option Sales Tax	154,170
	Urban Renewal Tax Increment	375,693
		<u>529,863</u>

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 8. INTERFUND TRANSFERS (Continued)

Capital Projects	General	66,756
Water Enterprise	Capital Projects	49,222
	Recoupment Fees Enterprise	26,500
		<u>75,722</u>
Sewer Enterprise	Recoupment Fees Enterprise	37,125
		<u>\$ 884,979</u>

NOTE 9. CONSTRUCTION CONTRACTS

The City has entered into various construction contracts totaling approximately \$1,553,000. The unpaid contract balances at June 30, 2014 totaled approximately \$97,000, which will be paid as work on the projects progresses.

NOTE 10. URBAN RENEWAL PROJECT REBATE AND ECONOMIC DEVELOPMENT AGREEMENTS

Project Rebate Agreements

The City has entered into two tax increment financing rebate agreements. The City has agreed to assist in urban renewal projects by rebating incremental property tax paid by the participating company 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 \$113,464 on these agreements through June 30, 2014. The outstanding balance of the rebate agreements at June 30, 2014 is approximately \$521,000.

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. Through June 30, 2013, the City has made payment to SEDG only upon request and the amount paid through June 30, 2013 was \$5,000. During the year ended June 30, 2014, the City paid off the remaining balance due 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.

CITY OF SOLON, IOWA

Notes to Financial Statements

June 30, 2014

NOTE 11. DEFICIT BALANCES

The Capital Projects Fund had a deficit balance of \$22,439 at June 30, 2014. The deficit will be eliminated with a transfer from available City funds.

NOTE 12. PROSPECTIVE ACCOUNTING CHANGE

The Government Accounting Standards Board has issued Statement No. 68, *Accounting and Financial Reporting for Pensions - an amendment of GASB No. 27*. This statement will be implemented for the fiscal year ending June 30, 2015. The revised requirements establish new financial reporting requirements for state and local governments which provide their employees with pension benefits, including additional note disclosures and required supplementary information.

NOTE 13. SUBSEQUENT EVENTS

The City purchased property at 120 W. Main Street on September 4, 2014 at a cost of \$134,000.

Management of the City has evaluated events through March 16, 2015, the date which the financial statements were available to be issued.

OTHER INFORMATION

CITY OF SOLON, IOWA

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, 2014

	Governmental Funds Actual	Proprietary Funds Actual	Net
Receipts:			
Property tax	\$ 789,820	\$ -	\$ 789,820
Tax increment financing	538,234	-	538,234
Other city tax	63,137	-	63,137
Licenses and permits	127,338	-	127,338
Use of money and property	12,893	6,226	19,119
Intergovernmental	433,582	-	433,582
Charges for service	170,793	953,484	1,124,277
Miscellaneous	68,633	16,384	85,017
Total receipts	<u>2,204,430</u>	<u>976,094</u>	<u>3,180,524</u>
Disbursements:			
Public safety	228,730	-	228,730
Public works	642,375	-	642,375
Culture and recreation	375,747	-	375,747
Community and economic development	142,305	-	142,305
General government	273,736	-	273,736
Debt service	714,181	-	714,181
Capital projects	820,203	-	820,203
Business type activities	-	898,317	898,317
Total disbursements	<u>3,197,277</u>	<u>898,317</u>	<u>4,095,594</u>
Excess (deficiency) of receipts over (under) disbursements	(992,847)	77,777	(915,070)
Other financing sources (uses), net	986,973	(126,291)	860,682
Excess (deficiency) of receipts and other financing sources over (under) disbursements and other financing uses	(5,874)	(48,514)	(54,388)
Balances, beginning of year	2,142,795	1,368,245	3,511,040
Balances, end of year	<u>\$ 2,136,921</u>	<u>\$ 1,319,731</u>	<u>\$ 3,456,652</u>

There were no funds of the City not required to be budgeted during the year ended June 30, 2014.

See accompanying Independent Auditor's Report and
accompanying Notes to Other Information.

<u>Budgeted Amounts</u>		
<u>Original</u>	<u>Final</u>	<u>Final to Net Variance</u>
\$ 792,829	\$ 792,829	\$ (3,009)
589,218	589,218	(50,984)
52,425	52,425	10,712
5,700	95,700	31,638
27,595	27,595	(8,476)
321,908	399,834	33,748
974,998	1,074,498	49,779
78,800	21,800	63,217
<u>2,843,473</u>	<u>3,053,899</u>	<u>126,625</u>
172,648	239,573	10,843
649,542	717,021	74,646
366,025	425,993	50,246
63,525	149,932	7,627
188,800	276,356	2,620
466,863	552,985	(161,196)
900,000	1,140,000	319,797
786,013	984,138	85,821
<u>3,593,416</u>	<u>4,485,998</u>	<u>390,404</u>
(749,943)	(1,432,099)	517,029
-	-	860,682
(749,943)	(1,432,099)	1,377,711
<u>3,376,298</u>	<u>3,376,298</u>	<u>134,742</u>
<u>\$ 2,626,355</u>	<u>\$ 1,944,199</u>	<u>\$ 1,512,453</u>

CITY OF SOLON, IOWA

Notes to Other Information - Budgetary Reporting

June 30, 2014

The budgetary comparison is presented 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 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 or fund type. 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 are required to be budgeted for all 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 \$892,582. The budget amendment is reflected in the final budgeted amounts.

Disbursements during the year ended June 30, 2014 exceeded the final budgeted amount in the debt service function. Disbursements in the public safety, community and economic development and general government functions exceeded the original budgeted amounts prior to approval of the budget amendment on April 16, 2014.

SUPPLEMENTARY INFORMATION

CITY OF SOLON, IOWA

Schedule 1

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

As of and for the Year Ended June 30, 2014

	Special Revenue				Total
	Road Use Tax	Employee Benefits	Playground Trust	Fire Trust	
Receipts:					
Property tax	\$ -	\$ 96,277	\$ -	\$ -	\$ 96,277
Other city tax	-	1,214	-	-	1,214
Use of money and property	-	-	67	-	67
Intergovernmental	203,548	-	-	-	203,548
Charges for service	-	-	310	-	310
Miscellaneous	-	-	22,710	-	22,710
Total receipts	203,548	97,491	23,087	-	324,126
Disbursements:					
Operating					
Public works	197,505	25,178	-	-	222,683
Culture and recreation	-	56,762	-	-	56,762
General government	-	14,873	-	-	14,873
Total disbursements	197,505	96,813	-	-	294,318
Change in cash balances	6,043	678	23,087	-	29,808
Cash balances, beginning of year	178,826	18,109	16,543	682	214,160
Cash balances, end of year	\$ 184,869	\$ 18,787	\$ 39,630	\$ 682	\$ 243,968
Cash basis fund balances:					
Restricted for:					
Streets	\$ 184,869	\$ -	\$ -	\$ -	\$ 184,869
Employee benefits	-	18,787	-	-	18,787
Recreation	-	-	39,630	-	39,630
Fire protection	-	-	-	682	682
Total cash basis fund balances	\$ 184,869	\$ 18,787	\$ 39,630	\$ 682	243,968

See accompanying Independent Auditor's Report.

CITY OF SOLON, IOWA

Schedule of Indebtedness

Year Ended June 30, 2014

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General Obligation Bonds and Notes:			
East Side Relief Sewer	10/27/03	** 1.75 % *	\$ 250,000
Wastewater Treatment Plant	12/1/05	3.55-4.80	1,405,000
Street Improvements	7/1/08	3.00-4.25	315,000
Street and Sidewalk Improvements	7/15/10	1.40-4.10	1,650,000
Street Improvement and Refunding	6/15/12	1.00-2.20	1,850,000
City Hall Project	8/22/13	3.15	1,070,000
Total			
Revenue Bonds:			
Sewer Revenue	5/1/06	3.95-5.10	950,000
Water Revenue	12/10/10	** 3.00	725,713
Total			
Urban Renewal Tax Increment Revenue Bond			
Anticipation Project Note	6/29/12	1.20	325,000

* Interest rate was reduced from 3.00% to 1.75% after December 1, 2013 payment.

** Annual servicing fee of 0.25% of outstanding principal balance is required.

See accompanying Independent Auditor's Report.

Schedule 2

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
\$ 124,000	\$ -	\$ 11,000	\$ 113,000	\$ 2,945	\$ -
860,000	-	90,000	770,000	39,155	-
185,000	-	185,000	-	7,562	-
1,470,000	-	60,000	1,410,000	52,825	-
1,695,000	-	155,000	1,540,000	24,573	-
-	1,070,000	60,000	1,010,000	26,121	-
<u>\$ 4,334,000</u>	<u>\$ 1,070,000</u>	<u>\$ 561,000</u>	<u>\$ 4,843,000</u>	<u>\$ 153,181</u>	<u>\$ -</u>
\$ 580,000	\$ -	\$ 60,000	\$ 520,000	\$ 27,685	\$ -
605,712	-	42,000	563,712	18,171	-
<u>\$ 1,185,712</u>	<u>\$ -</u>	<u>\$ 102,000</u>	<u>\$ 1,083,712</u>	<u>\$ 45,856</u>	<u>\$ -</u>
<u>\$ 213,968</u>	<u>\$ -</u>	<u>\$ 213,968</u>	<u>\$ -</u>	<u>\$ 366</u>	<u>\$ -</u>

CITY OF SOLON, IOWA

Bond and Note Maturities

June 30, 2014

Year Ending June 30,	General Obligation					
	East Side Sewer Relief		Wastewater Treatment Plant		Street/Sidewalk Improvements	
	Issued Oct. 27, 2003		Issued Dec. 1, 2005		Issued July 15, 2010	
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2015	1.75 %	\$ 11,000	4.30 %	\$ 95,000	2.75 %	\$ 100,000
2016	1.75	11,000	4.40	100,000	3.00	110,000
2017	1.75	12,000	4.50	105,000	3.20	115,000
2018	1.75	12,000	4.60	110,000	3.40	120,000
2019	1.75	13,000	4.70	115,000	3.60	125,000
2020	1.75	13,000	4.75	120,000	3.70	125,000
2021	1.75	13,000	4.80	125,000	3.80	130,000
2022	1.75	14,000	-	-	4.00	135,000
2023	1.75	14,000	-	-	4.00	145,000
2024	-	-	-	-	4.05	150,000
2025	-	-	-	-	4.10	155,000
Total		<u>\$ 113,000</u>		<u>\$ 770,000</u>		<u>\$ 1,410,000</u>

Revenue Bonds

Year Ending June 30,	Sewer Revenue		Water Revenue		Total
	Issued May 18, 2004		Issued Dec. 10, 2010		
	Interest Rates	Amount	Interest Rates	Amount	
2015	4.50 %	\$ 65,000	3.00 %	\$ 44,000	\$ 109,000
2016	4.60	70,000	3.00	45,000	115,000
2017	4.70	70,000	3.00	47,000	117,000
2018	4.80	75,000	3.00	48,000	123,000
2019	4.90	75,000	3.00	50,000	125,000
2020	5.00	80,000	3.00	51,000	131,000
2021	5.10	85,000	3.00	53,000	138,000
2022	-	-	3.00	55,000	55,000
2023	-	-	3.00	57,000	57,000
2024	-	-	3.00	58,000	58,000
2025	-	-	3.00	55,712	55,712
Total		<u>\$ 520,000</u>		<u>\$ 563,712</u>	<u>\$ 1,083,712</u>

See accompanying Independent Auditor's Report.

Bonds and Notes

Street Improvement and Refunding Issued June 15, 2012		City Hall Project Issued Aug. 22, 2013		Total
Interest Rates	Amount	Interest Rates	Amount	
1.00 %	\$ 175,000	3.15 %	\$ 88,000	\$ 469,000
1.00	185,000	3.15	90,000	496,000
1.15	195,000	3.15	93,000	520,000
1.30	195,000	3.15	96,000	533,000
1.50	155,000	3.15	99,000	507,000
1.70	155,000	3.15	102,000	515,000
1.85	160,000	3.15	105,000	533,000
2.00	105,000	3.15	109,000	363,000
2.10	105,000	3.15	112,000	376,000
2.20	110,000	3.15	116,000	376,000
	-		-	155,000
	<u>\$ 1,540,000</u>		<u>\$ 1,010,000</u>	<u>\$ 4,843,000</u>

CITY OF SOLON, IOWA

Schedule 4Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

For the Last Four Years

	<u>2014</u>	<u>2013</u>	<u>2012</u>	<u>2011</u>
Receipts:				
Property tax	\$ 789,820	\$ 803,768	\$ 718,952	\$ 621,928
Tax increment financing	538,234	465,532	476,013	461,225
Other city tax	63,137	214,715	205,044	142,847
Licenses and permits	127,338	91,923	84,503	90,569
Use of money and property	12,893	20,232	23,807	27,530
Intergovernmental	433,582	559,368	399,953	361,980
Charges for service	170,793	157,935	150,108	137,177
Miscellaneous	68,633	37,854	52,794	49,963
Total	<u>\$ 2,204,430</u>	<u>\$ 2,351,327</u>	<u>\$ 2,111,174</u>	<u>\$ 1,893,219</u>
Disbursements:				
Operating				
Public safety	\$ 228,730	\$ 152,367	\$ 139,091	\$ 131,999
Public works	642,375	510,387	637,300	577,750
Culture and recreation	375,747	410,796	400,295	341,243
Community and economic development	142,305	134,000	37,058	-
General government	273,736	224,896	199,848	198,939
Debt service	714,181	831,023	421,555	420,162
Capital projects	820,203	1,724,319	318,090	857,965
Total	<u>\$ 3,197,277</u>	<u>\$ 3,987,788</u>	<u>\$ 2,153,237</u>	<u>\$ 2,528,058</u>

See accompanying Independent Auditor's Report.

**INDEPENDENT AUDITOR'S REPORT ON INTERNAL CONTROL OVER
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

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

We have audited in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business type activities, 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, 2014, and the related notes to the financial statements, which collectively comprise the City's basic financial statements, and have issued our report thereon dated March 16, 2015. Our report expressed unmodified opinions on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

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

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and, therefore, material weaknesses or significant deficiencies may exist that were not identified. However, as described in the accompanying Schedule of Findings and Responses, we identified deficiencies in internal control we consider to be material weaknesses and 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 that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. We consider the deficiencies in internal control described in Part II of the accompanying Schedule of Findings and Responses as items II-A-14 and II-B-14 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 Part II of the accompanying Schedule of Findings and Responses as items II-C-14 through II-F-14 to be significant deficiencies.

Compliance and Other Matters

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

Comments involving statutory and other legal matters about the City of Solon, Iowa's operations for the year ended June 30, 2014 are based exclusively on knowledge obtained from procedures during our audit of the financial statements of the City of Solon, Iowa. Since our audit was based on tests and samples, not all transactions that might have an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

City of Solon, Iowa's Responses to Findings

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

Purpose of this Report

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

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Solon, Iowa 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.

Winkel, Parker & Foster, CPA PC

Iowa City, Iowa
March 16, 2015

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part I. Summary of the Independent Auditor's Results:

- (a) Unqualified opinions were issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States.
- (b) Material weaknesses and significant deficiencies in internal control over financial reporting were disclosed by the audit of the financial statements.
- (c) The audit did not disclose any noncompliance which is material to the financial statements.

Part II. Findings Related to the Financial Statements

INTERNAL CONTROL DEFICIENCIES

II-A-14 Segregation of Duties

Criteria - The City should have adequate segregation of duties to provide for the accuracy and reliability of the financial statements.

Condition - 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 - posting, reconciling and mailing.
- 6 Payroll - preparing and distributing.
- 7 Financial reporting - preparing, reconciling and distributing without independent review of journal entries.
- 8 Computer system - performing all general accounting functions and controlling all data input and output.

For the Library Foundation, a component unit of the City, one individual has control over each of the following areas:

- 1 Cash - handling and recording cash. Bank reconciliations are not performed and reviewed by an independent individual.
- 2 Receipts - collecting and depositing.
- 3 Disbursements - check writing, signing and approving.

Effect - As a result of this condition, there is a higher risk that errors or irregularities could occur and not be detected within a timely period.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part II. Findings Related to the Financial Statements (Continued)

Cause - The City and the Library Foundation have a limited number of personnel performing accounting functions.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the City and the Library Foundation should review their control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available staff, including elected officials. Review of bank reconciliations and other financial reports by an independent person should be documented by signing or initialing and dating the reconciliation.

Responses -

City - The City will periodically evaluate internal control procedures and work toward seeking solutions to improve internal controls. In recent years we have implemented having elected officials review invoices and will add the monthly review of bank statements by signing or initialing.

Library Foundation - The Library Foundation will submit monthly reconciliations to the Library Board of Trustees for approval and to the City for review by an independent person. The Foundation will also review internal control procedures for any changes that can be made in segregation of duties to increase internal control.

Conclusion - Response accepted.

II-B-14 **Reconciliation of Utility Billings, Collections and Delinquent Accounts**

Criteria - Effective accounting controls require that procedures be in place for reconciliation of transactions and balances to supporting records and information.

Condition - 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 has collected on several delinquent accounts the past two months and will continue to follow City policy on past due payments.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part II. Findings Related to the Financial Statements (Continued)

II-C-14 Computer Systems

Criteria - Internal control policies and procedures should be adopted and placed in service to ensure the effectiveness and efficiency of operations relating to processing, recording, reconciling, approval of and reporting of transactions and financial activity.

Condition - During our review of internal control, the existing control activities in the City's computer systems were evaluated in order to determine if 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 to 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.
- * A computer usage policy.
- * Usage of internet policy.
- * 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 on the written disaster recovery plan and computer usage policy as part of the Employee Handbook update planned for the 2015 calendar year.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part II. Findings Related to the Financial Statements (Continued)

II-D-14 Countersignature of Checks

Criteria - Internal control policies and procedures should be adopted and placed in service to ensure the effectiveness and efficiency of operations relating to processing, recording, reconciling, approval of and reporting of transactions and financial activity.

Condition - The City requires only one signature for a check to be issued. Not all checks were signed by an individual who did not otherwise participate in the preparation of checks.

Recommendation - To strengthen internal control, each check should be prepared and signed by one person and the supporting vouchers and invoices should then be made available along with the check to a second or independent person for review and countersignature. After signing, the checks should be mailed without allowing them to return to individuals who prepare the checks or approve vouchers for payment.

Response - The City recently changed from a one signature check to a two signature check with all invoices and checks reviewed twice by persons other than the one who prepared the check.

II-E-14 Library Foundation

Criteria - Internal control policies and procedures should be adopted and placed in service to ensure the effectiveness and efficiency of operations relating to processing, recording, reconciling, approval of and reporting of transactions and financial activity.

Condition - We noted the following regarding the Library Foundation:

- * A monthly reconciliation of bank to book balance is not prepared.
- * An investment register documenting certificate of deposit activity and balances is not maintained.
- * The Foundation requires only one signature for a check to be issued.
- * Supporting documentation is not maintained for disbursements.

Recommendation - A monthly reconciliation of the book and bank balances should be prepared and reviewed by an independent person. An investment register should be maintained documenting all certificate of deposit activity and balances. Checks should be prepared and signed by one person and the supporting vouchers and invoices should be made available along with the check to a second or independent person for review and countersignature. After signing, the checks should be mailed without allowing them to return to individuals who prepare the checks or approve vouchers for payment. Supporting documentation should be retained for all disbursements.

Response - Bank reconciliations and investment reports will be prepared monthly. The Foundation will maintain all supporting documentation for disbursements and will review its check writing policy to ensure proper internal control.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part II. Findings Related to the Financial Statements (Continued)

II-F-14 Utility Billing Rates

Criteria - Utility billing rates should be applied in accordance with the rates established by City Council resolution.

Condition - It was noted from our testing of utility billings that the billing rates for water and sewer consumption that are used in the computer software are not applied consistent with the rate structure approved by resolution of the City Council. When a utility customer's usage falls between increments of 1,000 gallons used, the billing rates used by the software are in increments of 100 gallons. The resolution approved by the City Council states rates that are to be applied in increments of 1,000 gallons.

Effect - As a result of this condition, there is a higher risk that residents are not billed the correct amount for utility consumption and utility revenues may not be sufficient to pay for the costs of operating the utilities.

Cause - The billing rates in the computer software have not been matched to the rates established by City Council resolution.

Recommendation - The City should consult with legal counsel to determine the proper action to take in order to resolve this inconsistency between approved and applied billing rates.

Response - The City will consult with legal counsel and take recommended action.

Conclusion - Response accepted.

INSTANCES OF NONCOMPLIANCE

There were no matters which were required to be reported in accordance with *Government Auditing Standards*.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part III. Other Findings Related to Required Statutory Reporting

III-A-14 **Certified Budget**

Comment - Disbursements during the year ended June 30, 2014 exceeded the final budgeted amount in the debt service function. In addition, disbursements in the public safety, community and economic development and general government functions exceeded the original budgeted amounts prior to adoption of the April 16, 2014 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.

III-B-14 **Questionable Disbursements** - We noted no disbursements that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

III-C-14 **Travel Expenses** - No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

III-D-14 **Business Transactions with City Officials and Employees** - No business transactions between the City and City officials or employees were noted.

III-E-14 **Bond Coverage** - Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to ensure that the coverage is adequate for current operations.

III-F-14 **City Council Minutes**

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

We were unable to find any evidence that the minutes of the March 13, 2014 and May 7, 2014 Council meetings were published. In addition, none of the minutes publications tested by us contained a summary of receipts.

Recommendation - The City should comply with Chapter 372 of the Code of Iowa in relation to all publication requirements.

Response - The City has corrected computer related issues and oversight that occurred with the relocation of the City Hall into a new building and will comply with all publication requirements of Chapter 372 of the Code of Iowa.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part III. Other Findings Related to Required Statutory Reporting (Continued)

III-G-14 Deposits and Investments

Comment - The maximum depository amount at one of the banks the City is authorized to bank with was exceeded on several occasions during the year.

Recommendation - Total deposits on hand at the banks the City is authorized to bank with should be reviewed on a regular basis to avoid exceeding the maximum authorized amounts. The City should also consider increasing the maximum authorized amount at the bank the City uses for most of its activity and maintains the largest share of its bank balance.

Response - The City has submitted a letter to Solon State Bank requesting an increase of guarantee of deposits. The City will monitor total balances.

Conclusion - Response accepted.

III-H-14 Revenue Bonds

Comment - The resolution providing for the sale of the December 2010 water revenue bonds provides that 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 of the bonds falling due in the same year. For the year ended June 30, 2014, net revenues were less than the required level. We noted that there were several significant repair and maintenance expenditures that reduced the net revenues of the water enterprise fund during the year.

Recommendation - The City should review its rates for service on an annual basis to ensure that the net revenues each year are adequate for operations and are in compliance with the resolution.

Response - The City will review the rates and number of expected new accounts at budget time to assure the 110% requirement is met.

Conclusion - Response accepted.

III-I-14 Urban Renewal Annual Report - The urban renewal annual report for the year ended June 30, 2014 was properly approved and certified to the Iowa Department of Management on or before December 1, 2014 and no exceptions were noted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part III. Other Findings Related to Required Statutory Reporting (Continued)

III-J-14 Annual Financial Report

Comment - The annual financial report for the year ended June 30, 2014 was filed online by the December 1, 2014 deadline, however, it was not published until December 4, 2014.

Recommendation - The City should make sure the annual financial report is filed online, published, and the proof of publication is submitted by the December 1 deadline.

Response - The City will approve, publish and file the Annual Financial Report by the December 1 deadline.

Conclusion - Response accepted.

III-K-14 Economic Development Agreements

Comment - 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 for the 2007 through 2012 certifications. As of June 30, 2013, the City had paid only \$5,000 to SEDG, and the balance of the agreement was paid during the year ended June 30, 2014.

On March 7, 2010 and September 21, 2011, the City entered into two agreements with Solon Nursing Care Center, Inc. to provide grants totaling \$634,450 to carry out economic development activities within the City's urban renewal areas. The grants are 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 agreements, annual payments beginning June 1, 2012, not to exceed an aggregate of \$634,450 are due over five year periods, with the final payment due in June 2018. The City has annually appropriated the payments and has included the appropriated debt on the TIF debt certifications to the County. As of June 30, 2013, the City had not made its June 1, 2013 scheduled payment of \$38,371 under one of the agreements. During the year ended June 30, 2014, the City made payments on these two agreements to bring them current on the obligations.

Recommendation - The City should ensure that economic development payments are timely remitted once the debts are appropriated.

Response - The City will make economic development payments in a timely manner and according to the agreement with the entity and the City.

Conclusion - Response accepted.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part III. Other Findings Related to Required Statutory Reporting (Continued)

III-L-14 Tax Increment Financing (TIF) Indebtedness Certification and Disbursements

Comment - Chapter 403.19 of the Code of Iowa provides a municipality may certify loans, advances, indebtedness and bonds (indebtedness) to the County Auditor. Such certification makes it a duty of the County Auditor to provide for the division of property tax to repay the certified indebtedness and, as such, the County Auditor shall provide available TIF incremental property tax in subsequent fiscal years without further certification until the amount of certified indebtedness is paid to the City. Indebtedness incurred is to be certified to the County Auditor and then the divided property tax is to be used to pay the principal of and interest on the certified indebtedness.

Chapter 403.19(2) of the Code of Iowa states, in part, "That portion of the taxes each year...shall be allocated to and when collected be paid into a special fund of the municipality to pay the principal of and interest on loans, moneys advanced to, or indebtedness, whether funded, refunded, assumed, or otherwise, including bonds issued under the authority of section 403.9, subsection 1, incurred by the municipality to finance or refinance, in whole or in part, an urban renewal project within the area." Chapter 403.19(10)(6) of the Code of Iowa prohibits borrowing from this "special fund."

During the year ended June 30, 2013, the City approved and provided a \$125,000 forgivable loan to Brewery Property LLC from the Special Revenue, Urban Renewal tax Increment Fund (TIF Fund). However, the resolution approving the forgivable loan required the loan be advanced from the Recoupment Fees enterprise fund, not the TIF Fund. Pursuant to Chapter 403.19 of the Code of Iowa, the City may not borrow from the TIF Fund for any purpose.

Recommendation - The City should transfer \$125,000 from the Enterprise, Recoupment Fees Fund to the TIF Fund to reimburse the TIF Fund and reflect the loan advance from the fund approved by the City Council.

Response - The City will make the recommended transfer.

Conclusion - Response accepted.

III-M-14 City Fire Protection

Comment - 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 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, 2014, the City paid \$61,640 to the Department under the terms of the Agreement.

CITY OF SOLON, IOWA

Schedule of Findings and Responses

Year Ended June 30, 2014

Part III. Other Findings Related to Required Statutory Reporting (Continued)

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, although we believe the Department was intended to be created as a 28E organization through the joint efforts of the three townships. 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.

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 - The City and its attorney are currently working with the Tri-townships, who are working with the County Attorney's office, toward identifying the Tri-Township Fire Department as an entity; also to amend the 1999 agreement to better clearly define the duties and responsibilities of the City and the Tri-township. The City currently reviews and pays all bills under the City's responsibility and the City reviews and records all Tri-township bills paid by the Tri-township.

Conclusion - Response accepted.

III-N-14 **Financial Condition**

Comment - The Capital Projects Fund had a deficit balance of \$22,439 at June 30, 2014.

Recommendation - The City should investigate alternatives to eliminate this deficit to return the fund to a sound financial position.

Response - The City has now closed several major projects and has a plan to return the Capital Projects Fund to a sound financial position with General Fund surplus funds allocated for capital projects.

Conclusion - Response accepted.